



# 2021

ANNUAL REPORT

**CANFOR PULP PRODUCTS INC.**



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## MESSAGE TO SHAREHOLDERS

# FROM THE CEO

As we consider the events of 2021, I am most impressed by the resiliency of our people and the resolve demonstrated every day to overcome the many challenges and ensuring Canfor Pulp is a sustainable and respected company in the years ahead. Despite the ongoing pandemic, significant supply chain challenges, and continued volatility in global pulp market conditions our employees demonstrated exceptional perseverance and dedication.

The health, safety and wellness of our employees has been and will continue to be our first priority. As we adapted to evolving COVID-19 procedures and protocol, a steadfast commitment to keeping our people safe and healthy was demonstrated by all. As a result of their determination there was minimal COVID-19 impacts on our operations.

After a difficult 2020, Canfor Pulp experienced improved results in 2021. This primarily reflects the strengthening of global pulp market fundamentals, predominately in the first half of the year which more than offset the impacts from extreme weather conditions in British Columbia ("BC"), global supply chain challenges, production downtime and global pulp market weakness in the latter part of the year.

Like other central and northern BC Interior pulp producers, the Company's supply of sawmill residuals continues to face challenges, primarily driven by permanent and temporary sawmill curtailments in the region. As a result, 2021 saw increasing cost pressures on fibre, including an increase in the costs of whole log chips and transportation. Despite these headwinds, our people persevered and further solidified our strong cash position and ended the year with a solid balance sheet.

Looking forward, it is anticipated that fibre will remain constrained and at a higher cost in BC. To weather these challenges, the company will remain focused on improving operational reliability, managing costs and improving fibre utilization.

As a result of the weaker market fundamentals in the second half of the year, the Company chose to take additional downtime at our Northwood facility and undertake a significant capital rebuild of the lower furnace of recovery boiler number one earlier than anticipated. This decision supports the Company's efforts to achieve more operational stability, sustainability and reliability.

The organization is implementing an initiative to improve operational performance by focusing on the variables within our control and further optimizing our operations. Improving operational performance is about our people, processes and management systems working effectively to improve safety, reliability, quality and productivity, and we are pleased to be seeing early positive results.

Our disciplined approach means we are well positioned to capitalize on further upward momentum in pulp prices, improving demand and further opportunity to significantly grow our specialty pulp segment.

Customers are increasingly considering environmental and social impacts when making decisions. As the world moves away from fossil-fuel based products, we know forest products are increasingly being recognized for how they can help mitigate climate change.

This represents an opportunity, as much as a responsibility for Canfor Pulp. To capitalize on potential demand, the Company will remain focused on operational excellence, organic growth, new opportunities in the emerging bioeconomy, and provide reliable and high-quality pulp and paper products for our global customers.

To advance Canfor Pulp's culture of sustainability, we took some bold steps as we sought to maintain our leadership as producers of the most sustainable products in the world. With the launch of a comprehensive Sustainability Strategy, we made commitments to sustainable forestry, a stronger focus on safety, health, wellness, inclusion and diversity amongst our employees, and strengthening our partnerships with Indigenous communities.

We are focused on fostering a more inclusive and equitable culture and increasing the diversity of our workforce. We know that diverse backgrounds, abilities, experiences and points of view make us stronger. To achieve our goal, we have set meaningful and measurable targets. Our employees participate in inclusion and diversity training and Indigenous cultural awareness training. We are also strengthening our recruitment processes to ensure inclusion, diversity and equity. We believe our efforts will result in improved teamwork, better problem solving, increased innovation, and a safer and more welcoming culture and workplace.

In October 2021, Pat Elliott was appointed to the position of Chief Financial Officer (CFO). Pat's extensive corporate finance leadership experience with Canfor has positioned him well to take on the role of CFO. Pat, along with the executive team, are committed to maintaining the financial discipline for which Canfor Pulp is known and respected.

In March 2022, I was pleased to announce the appointment of Kevin Edgson as the President and CEO of Canfor Pulp. Kevin, who has deep experience in the forestry and pulp industries and is a highly successful leader, will be focused on optimizing the value of Canfor Pulp's business and will work with the leadership team to conduct a comprehensive business review.

On behalf of Canfor Pulp's senior executive team, I would like to conclude by expressing my appreciation to our Board of Directors who supported our strategy and offered their guidance to help see us through another challenging year. Also, to our employees and staff who make our achievements possible. Finally, to our shareholders, thank you, for your continued confidence and investment in Canfor Pulp.

While challenges remain, Canfor Pulp will stay dedicated to keeping our people safe, producing high-quality sustainable pulp and paper products and position the company to capitalize on the ongoing transition to a low-carbon economy.



A handwritten signature in black ink, appearing to read 'Don Kayne'.

**Don Kayne**  
Chief Executive Officer

## 2021 MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("Canfor Pulp", "CPPI" or "the Company") financial performance for the year ended December 31, 2021 relative to the year ended December 31, 2020, and the financial position of the Company at December 31, 2021. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2021 and 2020 (available at [www.canfor.com](http://www.canfor.com)). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.*

*Throughout this discussion, reference is made to Operating Income (Loss) before Amortization and Impairment which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt repayment and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2021 Compared to 2020") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization and Impairment, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization and Impairment, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization and Impairment to Operating Income (loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A.*

*Also in this MD&A, reference is made to net debt (cash), net debt (cash) to total capitalization and return on invested capital ("ROIC") which the Company considers to be relevant performance indicators that are not generally accepted under IFRS. Therefore these indicators, defined herein, may not be directly comparable with similarly titled measures used by other companies. Refer to the "Non-IFRS Financial Measures" section of this MD&A for further details.*

*Factors that could impact future operations are also discussed. These factors may be influenced by known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and other operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by CPPI.*

*All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at March 1, 2022.*

### Forward-Looking Statements

*Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on Management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.*

# COMPANY OVERVIEW

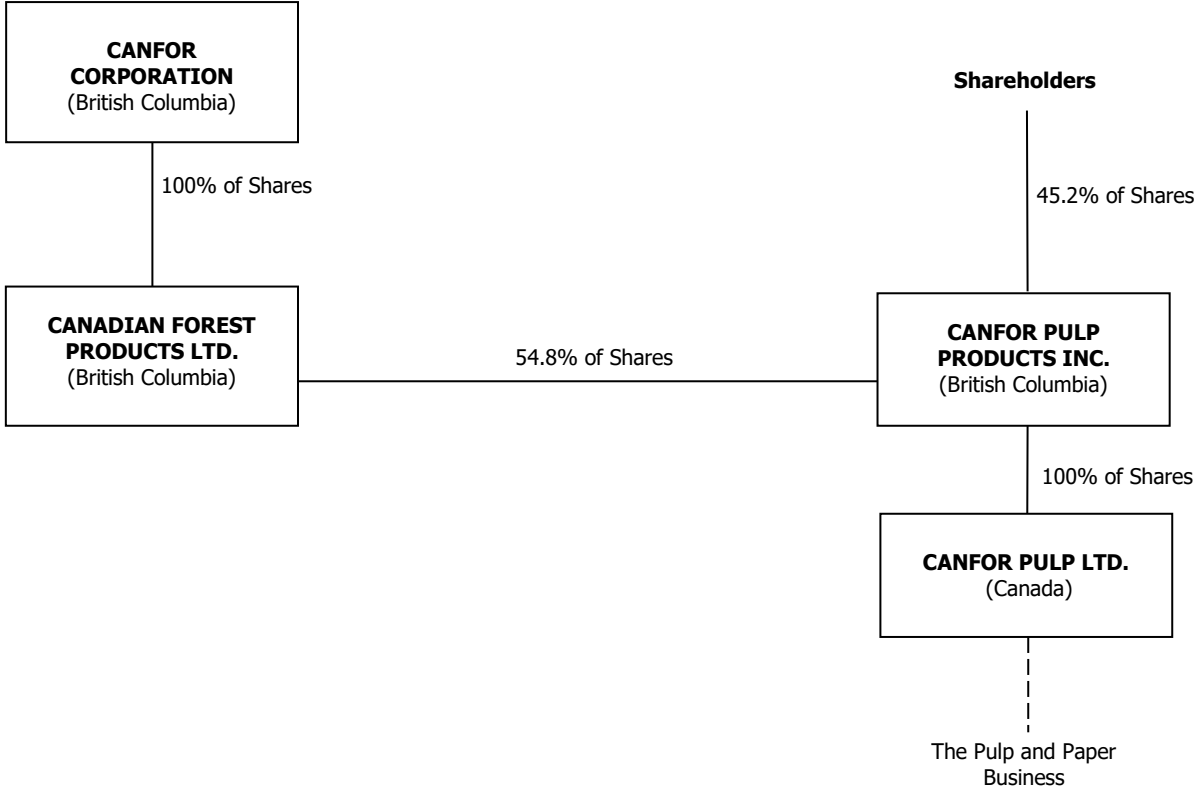
CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise the Company and its subsidiary entities. The Company’s operations consist of two Northern Bleached Softwood Kraft (“NBSK”) pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia (“BC”); a Bleached Chemi-Thermo Mechanical Pulp (“BCTMP”) mill located in Taylor, BC and a marketing group based in Vancouver, BC.

At December 31, 2021, Canfor Corporation (“Canfor”) held a 54.8% interest in CPPI, unchanged from December 31, 2020.

CPPI employed 1,277 people in its wholly owned subsidiaries and jointly owned operations as at December 31, 2021.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively “the Company”) as at December 31, 2021.

### Simplified Ownership Structure



## **Pulp**

The Company owns and operates three NBSK pulp mills with an annual production capacity of approximately 1.1 million tonnes of northern softwood market kraft pulp, the significant majority of which is bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

The Northwood pulp mill is a two-line pulp mill with an annual production capacity of approximately 600,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of products including specialty products, premium tissue and printing and writing papers, and is primarily delivered to customers in North America and Asia.

The Intercontinental pulp mill is a single-line pulp mill with an annual production capacity of approximately 320,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same products as that of Northwood, and is delivered to North America, Asia and Europe.

The Prince George pulp and paper mill is an integrated two-line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 tonnes. The Prince George pulp and paper mill supplies to pulp markets in North America, Asia and Europe, as well as to its internal paper making facilities.

The Company also owns and operates the Taylor pulp mill, which it purchased from Canfor in early 2015. This BCTMP facility has an annual production capacity of 230,000 tonnes, and supplies pulp markets in North America and Asia.

## **Paper**

The Company's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper, including a wide range of high performance bleached and unbleached kraft and specialty papers. The paper mill supplies primarily North American, Asian and European markets.

## **Business Strategy**

CPPI's overall business strategy is to be a pulp and paper industry leader with strong financial performance, accomplished through:

- Attaining world-class safety performance;
- Implementing a sustainability strategy that is helping to protect our planet, support our people and communities, and produce pulp and paper products that are an important part of a low-carbon economy;
- Contributing to the climate change solution through a wide range of innovative high-value carbon-rich sustainable products, and materially reducing its reliance on fossil fuels;
- Optimizing the value from its high-quality premium reinforced pulp and paper products, particularly in specialty end use applications;
- Attaining world-class supply chain performance and providing excellence in customer service;
- Targeting a highly cost-efficient operating position;
- Maintaining a strong financial position;
- Growing an enterprise-wide culture of innovation, diversity and engagement by attracting, retaining and developing our employees; and
- Capitalizing on accretive growth and diversification opportunities, particularly in the bioeconomy sector.

## **OVERVIEW OF 2021**

Following the many challenges driven by the onset of the coronavirus outbreak ("COVID-19") in 2020, Canfor Pulp experienced improved results in 2021, primarily reflecting the strengthening of global pulp market fundamentals in the first half of the year which more than offset the impacts from extreme weather conditions in BC on supply chain and operations, production downtime and global pulp market weakness in the latter part of the year. At the end of the 2021 year, recognizing increasing challenges to the business posed by fibre availability and costs, the Company recorded an asset impairment of \$95.0 million. Before taking account of adjusting items, the Company's operating income was \$31.9 million for the current year, with adjusted net income of \$0.38 per share, an improvement of \$96.5 million from the adjusted operating loss of \$64.6 million for the prior year, and adjusted net loss of \$0.34 per share. The Company reported an operating loss for 2021 of \$65.5 million, versus an operating loss of \$56.1 million for 2020.

For 2021 overall, persistent global supply chain challenges gave rise to more volatility and higher prices in global pulp markets. The printing and writing segment experienced a slight uptick of demand in the current year, following its accelerated decline in the prior year, while demand for tissue products was comparable year-over-year.

Early in the year, global pulp demand saw a sharp improvement, principally driven by strengthening demand, particularly from China. However, a moderation in purchasing activity from China mid-year, resulted in a decline in global pulp market fundamentals through the second half of 2021. As a result, global pulp inventory levels remained at elevated levels through most of 2021, averaging 41 days of supply.

NBSK list prices to China, the world's largest consumer of market pulp, surged in the first half of 2021, reaching a near-record high of US\$990 per tonne in April. However, as purchasing activity waned, prices to this region declined through the latter part of the year to a low of US\$696 per tonne in November. For the 2021 year as a whole, NBSK pulp list prices to China averaged US\$850<sup>1</sup> per tonne, an increase of US\$262 per tonne, or 45%, from 2020, while North American NBSK pulp list prices averaged US\$1,478<sup>1</sup> per tonne for the current year, up US\$339 per tonne, or 30%, from the prior year (before taking account of customer discounts, which were broadly unchanged year-over-year). BCTMP US-dollar prices experienced more modest improvements through the first half of 2021, before declining in the second half of the year to levels comparable to 2020.

Extreme weather in BC including wildfires, flooding and intense cold, led to significant rail and road disruptions as well as pulp mill operational challenges through much of the year, with the fourth quarter seeing significant production and supply chain disruptions. These conditions were coupled with global port congestion and container shortages. The Company responded to these challenges by taking production curtailments at its Northwood NBSK pulp mill ("Northwood") and its Taylor BCTMP mill ("Taylor") in the fourth quarter.

The year also saw the commencement in December of a major rebuild of the lower furnace of the number one recovery boiler ("RB1") at Northwood to ensure its safe and reliable operation, which further reduced production volumes in the fourth quarter.

The reported operating loss for the pulp segment was \$55.8 million in 2021. After taking account of adjusting items, the pulp segment earnings for the current year were \$41.6 million, an improvement of \$120.5 million compared to an adjusted operating loss of \$78.9 million in the previous year, as notably higher NBSK pulp unit sales realizations more than offset the impact of a 5 cent, or 7%, stronger Canadian dollar and unscheduled production outages in the latter part of 2021.

The combined impact of the aforementioned downtime taken in 2021 not only reduced the Company's pulp segment production and shipments, but also had an adverse impact on unit fibre costs, manufacturing costs and energy revenue in the current year.

The Company's paper business delivered a solid operational performance at its Prince George paper machine in 2021. Operating earnings, however, showed a notable decline year-over-year, as significantly higher slush pulp prices, driven by the high NBSK pulp prices in the current year, more than offset the benefit of improved US-dollar kraft paper prices year-over-year.

Despite the operational challenges faced by Canfor Pulp in 2021, the Company maintained a solid balance sheet, finishing 2021 with net cash of \$23.3 million and a net cash to total capitalization ratio of 4.9%. This represented an improvement of \$66.5 million compared to the end of 2020.

Like other central and northern BC Interior pulp producers, the Company's supply of sawmill residual chips has been significantly reduced over the last few years, primarily driven by extensive permanent sawmill curtailments in the region. As a result, the Company's fibre purchases have experienced ongoing cost pressures that include an increase in the proportion of higher-cost whole log chips and higher transportation costs.

Looking forward there remains significant uncertainty with regards to the future of economically viable fibre within BC. This uncertainty is driven by, among other factors, the lasting impacts of the Mountain Pine Beetle ("MPB") epidemic, wildfire events, future Timber Supply Review determinations by the BC Government, as well as uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. This includes the BC Government's announced deferral of harvesting on 2.6 million hectares of BC's old-growth forests and the potential redistribution of Crown tenure harvesting rights, including Indigenous Nations.

<sup>1</sup> Resource Information Systems, Inc.



Consequently, the BC sawmill manufacturing industry faces a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates that escalating log cost pressures in BC will translate into a higher cost fibre supply for its pulp mills (both for sawmill residual chips and whole-log chips). In addition, it is expected that the long-term aggregate available chip supply will be permanently reduced.

Recognizing these increased fibre costs as well as ongoing uncertainty surrounding fibre availability, the Company performed an impairment test for its pulp segment as of December 31, 2021, which resulted in an impairment charge of \$95.0 million being recognized in the current year as a reduction to the carrying value of pulp segment assets.

A review of the more significant developments and results by operating segment in 2021 follows.

## **Markets and Pricing**

### **(i) Pulp – Supply chain driven volatility in global pulp fundamentals and pricing in 2021**

The upward pricing momentum experienced in the latter part of 2020 continued into the first half of 2021, as tight global supply driven by unplanned downtime in the prior year, combined with global logistics constraints, resulted in tightening markets through the first half of 2021. However, as the sustained and uncertain impacts of ongoing global transportation challenges continued into the second half of 2021, rising global pulp inventory levels and softening Chinese demand, tied in part to the energy constraints on the industrial segment in that region, put pressure on global pulp market fundamentals. Late in the year, however, following unplanned pulp downtime coupled with improved demand in China, global pulp pricing experienced some positive momentum.

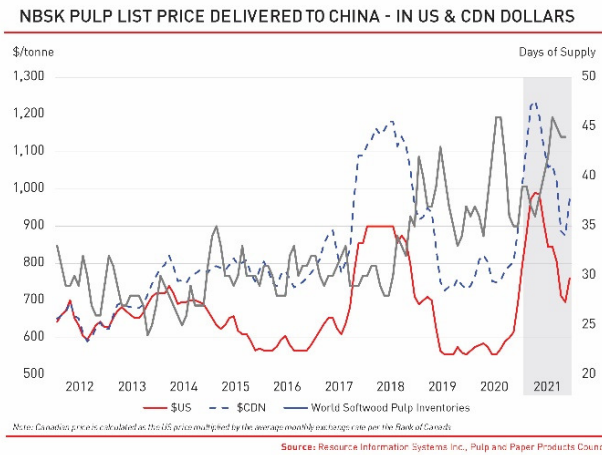
As a result of the aforementioned factors, NBSK pulp list prices to China for the year averaged US\$850 per tonne, US\$262 per tonne, or 45%, higher than the 2020 average price; however, prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US\$760 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US\$1,185 per tonne in January to a peak of US\$1,615 per tonne in June, before declining to US\$1,450 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories increased in the first quarter of 2021, largely as a result of transportation constraints and lower maintenance downtime, before declining slightly through the spring maintenance period in the second quarter of 2021. In the latter part of 2021, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 43<sup>2</sup> days, well above the balanced range of 29-36 days.

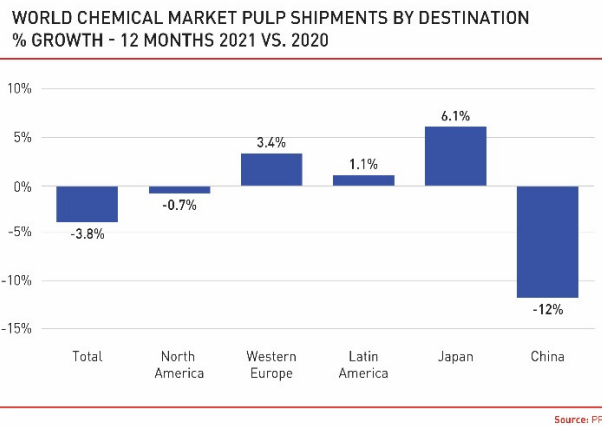
<sup>2</sup> World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

The following charts show the NBSK pulp list price movements in 2021, before taking account of customer discounts and rebates (Chart 1), global pulp shipments by destination (Chart 2), and the global pulp inventory levels (Chart 3).

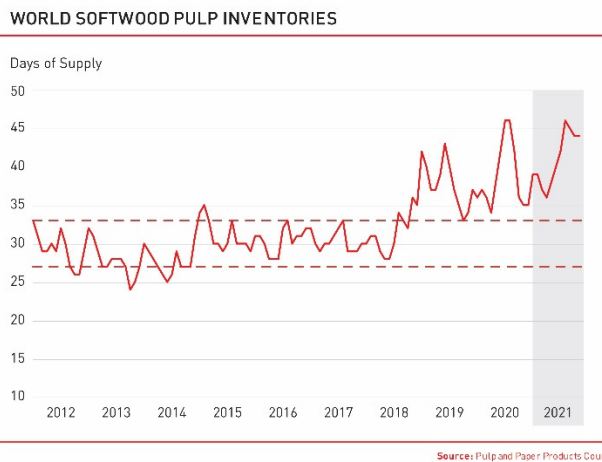
**Chart 1**



**Chart 2**



**Chart 3**



## **(ii) Paper – COVID-19 related strengthening of global kraft paper market fundamentals**

With the global pandemic continuing into 2021, the demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong. Demand in offshore markets that had been lagging North America experienced an uptick in the current year and gave rise to increased global supply pressures. As a result, overall global kraft paper pricing strengthened year-over-year.

### **Fibre Supply**

#### **Ongoing fibre cost pressures combined with uncertainty surrounding fibre availability**

Like other central and northern BC Interior pulp producers, the Company's supply of sawmill residual chips has been significantly reduced over the last few years, primarily driven by extensive permanent sawmill curtailments in the region. As a result, the Company's fibre purchases have experienced ongoing cost pressures that include an increase in the proportion of higher-cost whole log chips and higher transportation costs.

Looking forward there remains significant uncertainty with regards to the future of economically viable fibre within BC. This uncertainty is driven by, among other factors, the lasting impacts of the MPB epidemic, wildfire events, future Timber Supply Review determinations by the BC Government, as well as uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. This includes the BC Government's announced deferral of harvesting on 2.6 million hectares of BC's old-growth forests and the potential redistribution of Crown tenure harvesting rights, including Indigenous Nations.

Consequently, the BC sawmill manufacturing industry faces a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates that escalating log cost pressures in BC will translate into a higher cost fibre supply for its pulp mills (both for sawmill residual chips and whole-log chips). In addition, it is expected that the long-term aggregate available chip supply will be permanently reduced.

The Company has taken a number of actions in response to these fibre constraints, including securing additional fibre supply, prioritizing discretionary capital spend on optimizing fibre procurement and maximizing fibre utilization and recovery. However, recognizing the increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for the Company's pulp mills, the Company performed an impairment test as of December 31, 2021, which resulted in an impairment charge of \$95.0 million being recognized in the current year as a reduction to the carrying value of pulp segment assets.

### **Capital and Operations Review**

#### **Solid balance sheet remains, notwithstanding weather-related curtailments and operational disruptions; Northwood RB1 lower furnace rebuild underway**

Total pulp and paper production in 2021 at 1,144,000 tonnes was broadly in line with prior year, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Following the completion in mid-January of Northwood's recovery boiler number five ("RB5") rebuild, the Company's pulp mills had a strong start to the year, with solid operating rates throughout much of the first half of 2021. However, the onset of wildfires, flooding and intense cold in the latter part of the year contributed to transportation-related production curtailments at Northwood and Taylor and placed a significant strain on the Company's pulp mills.

In addition, in late-December the Company extended its outage on one production line at Northwood to enable the replacement of the lower furnace on RB1. This lower furnace capital rebuild is progressing as planned and is anticipated to be completed late-March, for a total capital cost of approximately \$30.0 million and total reduction in NBSK pulp production of approximately 80,000 tonnes (10,000 tonnes in 2021 and a further 70,000 tonnes in the first quarter of 2022).

Combined, these factors reduced pulp production by approximately 170,000 tonnes in 2021. Furthermore, the Company completed scheduled outages in the current year at its Intercontinental, Prince George and Taylor mills which reduced pulp production by 25,000 tonnes.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at the Company's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Capital spending in 2021 totaled \$78.7 million and was principally comprised of Northwood's RB5 lower furnace replacement early in the year, combined with maintenance-of-business capital spending. In 2022, Management currently anticipates capital spending to comprise the lower furnace rebuild of Northwood's RB1, strategic projects focused on enhancing long-term fibre optimization, improving its carbon footprint as well as various projects aimed at improving operational reliability.

The Company maintained its strong balance sheet position in 2021, finishing the year with a positive net cash position.

## **Environmental, Social and Governance ("ESG") Reporting and Related Risks**

One of CPPI's primary objectives is to be the leading global supplier of sustainable pulp and paper products. As a Company that uses a renewable resource to produce sustainable products, it is part of the climate change solution and the circular economy.

In 2021, as part of this leading role, the Company launched its sustainability strategy, including an updated 2020 Sustainability Report prepared in accordance with Global Reporting Initiative Standards. The latest Sustainability Report includes the Company's new goals and targets and demonstrates progress made to date, reiterating a commitment to providing comprehensive and transparent reporting of sustainability practices, goals and metrics. The Company's sustainability strategy marks a new era in sustainability for the Company. The Company's vision of creating a future as sustainable as the forests is grounded in a deep respect for the people the business touches, the products it creates and the planet it relies on to thrive.

In the 2021 Sustainability Report, the Company will continue its evolution in ESG reporting by providing increasing transparency and disclosure, including defining additional goals and targets for its ESG material topics. The Company is actively monitoring the changing landscape of ESG reporting regulations and is aligning disclosures with the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB"). More details will be included in Canfor's 2021 Sustainability Report (to be issued in the second quarter of 2022).

Furthermore, the Company is subject to risks related to ESG topics, including climate change and environmental issues. Climate change risks include physical risks resulting from adverse events brought on by both natural and human-made disasters, including, but not limited to, severe weather conditions, forest fires, hurricanes, earthquakes and timber diseases and infestations. The Company is also subject to transition risks associated with climate change including changes in laws, regulations and industry standards associated with climate change. There also may be reputation risks due to rising prominence of ESG concerns among the Company's stakeholders and Indigenous Partners which could impact public opinions about the Company and its industry and could adversely affect its reputation, business, strategy and operations. The Company is also subject to a wide range of general and industry-specific laws and regulations relating to protection of the environment.

The risks and uncertainties the Company faces associated with climate change and the environment are discussed further under "Climate Change" and "Environmental Issues" in the Risks and Uncertainties section of this document.

# OVERVIEW OF CONSOLIDATED RESULTS – 2021 COMPARED TO 2020

## Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)	2021	2020
Sales	\$ 1,144.9	\$ 990.5
Operating income (loss) before amortization and impairment <sup>3,4</sup>	\$ 116.8	\$ 26.1
Operating income (loss)	\$ (65.5)	\$ (56.1)
Adjusted operating income (loss) before amortization and impairment <sup>3,4,5</sup>	\$ 119.2	\$ 17.6
Adjusted operating income (loss) <sup>5</sup>	\$ 31.9	\$ (64.6)
Net loss	\$ (44.4)	\$ (22.4)
Net loss per share, basic and diluted	\$ (0.68)	\$ (0.34)
Adjusted net income (loss) <sup>5</sup>	\$ 25.0	\$ (22.4)
Adjusted net income (loss) per share, basic and diluted <sup>5</sup>	\$ 0.38	\$ (0.34)
ROIC – Consolidated <sup>5</sup>	(7.6)%	(3.2)%
Average exchange rate (US\$ per Cdn\$1.00) <sup>6</sup>	\$ 0.798	\$ 0.746

<sup>3</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>4</sup> Adjusted for an asset impairment charge of \$95.0 million in 2021.

<sup>5</sup> Adjusted results and consolidated ROIC are non-IFRS financial measures. Refer to the "Non-IFRS Financial Measures" section for further details.

<sup>6</sup> Source – Bank of Canada (monthly average rate for the period).

## Selected Cash Flow Information

(millions of Canadian dollars)	2021	2020
Operating income (loss) by segment:		
Pulp	\$ (55.8)	\$ (70.4)
Paper	\$ 4.3	\$ 24.0
Unallocated	\$ (14.0)	\$ (9.7)
<b>Total operating income (loss)</b>	\$ (65.5)	\$ (56.1)
Add: Amortization <sup>7</sup>	\$ 87.3	\$ 82.2
Add: Asset impairment	\$ 95.0	\$ -
<b>Total operating income (loss) before amortization and impairment</b>	\$ 116.8	\$ 26.1
Add (deduct):		
Working capital movements	\$ (3.9)	\$ 11.8
Defined benefit plan contributions, net	\$ (3.5)	\$ (3.3)
Income taxes received, net	\$ 26.0	\$ 29.0
Other operating cash flows, net	\$ 13.5	\$ 32.4
<b>Cash from operating activities</b>	\$ 148.9	\$ 96.0
Add (deduct):		
Capital additions, net	\$ (78.7)	\$ (73.3)
Dividends paid	\$ -	\$ (4.1)
Other, net	\$ (3.7)	\$ (3.8)
<b>Change in cash / operating loans</b>	\$ 66.5	\$ 14.8

<sup>7</sup> Amortization includes amortization of certain capitalized major maintenance costs.

### Analysis of Specific Items Affecting Comparability of Shareholder Net Income (Loss)

After-tax impact (millions of Canadian dollars, except for per share amounts)	<b>2021</b>	<b>2020</b>
<b>Net loss, as reported</b>	<b>\$ (44.4)</b>	\$ (22.4)
Asset impairment	<b>\$ 69.4</b>	\$ -
Net impact of above items	<b>\$ 69.4</b>	\$ -
<b>Adjusted net income (loss)<sup>8</sup></b>	<b>\$ 25.0</b>	\$ (22.4)
<b>Net income (loss) per share (EPS), as reported</b>	<b>\$ (0.68)</b>	\$ (0.34)
Net impact of above items per share	<b>\$ 1.06</b>	\$ -
<b>Adjusted net income (loss) per share<sup>8</sup></b>	<b>\$ 0.38</b>	\$ (0.34)

<sup>8</sup> Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

## **OPERATING RESULTS BY BUSINESS SEGMENT – 2021 COMPARED TO 2020**

The following discussion of CPPI's operating results relates to the operating segments and the non-segmented items as per the Segment Information note in the Company's consolidated financial statements.

CPPI's operations include the Pulp and Paper segments.

### **Pulp**

#### **Selected Financial Information and Statistics – Pulp**

Summarized results for the Pulp segment for 2021 and 2020 are as follows:

(millions of Canadian dollars, unless otherwise noted)	<b>2021</b>	<b>2020</b>
Sales	<b>\$ 984.7</b>	\$ 827.9
Operating income before amortization and impairment <sup>9</sup>	<b>\$ 123.9</b>	\$ 8.8
Operating income (loss)	<b>\$ (55.8)</b>	\$ (70.4)
Asset impairment	<b>\$ 95.0</b>	\$ -
Inventory write-downs (recovery)	<b>\$ 2.4</b>	\$ (8.5)
Adjusted operating income (loss) <sup>10</sup>	<b>\$ 41.6</b>	\$ (78.9)
Capital expenditures	<b>\$ 76.3</b>	\$ 71.3
Average NBSK pulp price delivered to China – US\$ <sup>11</sup>	<b>\$ 850</b>	\$ 588
Average NBSK pulp price delivered to China – Cdn\$ <sup>11</sup>	<b>\$ 1,065</b>	\$ 789
Production – pulp (000 mt)	<b>1,018</b>	1,018
Shipments – pulp (000 mt)	<b>1,007</b>	1,045

<sup>9</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>8</sup> Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

<sup>11</sup> Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn\$ calculated as average NBSK pulp net price delivered to China – US\$ multiplied by the average exchange rate – Cdn\$ per US\$1.00 according to Bank of Canada monthly average rate for the period.

#### **Markets**

As previously highlighted, the upward pricing momentum experienced in the latter part of 2020 continued into the first half of 2021, as tight global supply driven by unplanned downtime in the prior year, combined with global logistics constraints resulted in tightening markets through the first half of 2021. However, as the sustained and uncertain impacts of ongoing global transportation challenges continued into the second half of 2021, rising global pulp inventory levels and softening Chinese demand, tied in part to the energy constraints on the industrial segment in that region, put pressure on global pulp market fundamentals. Late in the year, however, following unplanned pulp downtime coupled with improved demand in China, global pulp pricing experienced some positive momentum.

NBSK pulp list prices to China for the year averaged US\$850 per tonne, US\$262 per tonne, or 45%, higher than the 2020 average price; however, prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US\$760 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US\$1,185 per tonne in January to a peak of US\$1,615

per tonne in June, before declining to US\$1,450 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories increased in the first quarter of 2021, largely as a result of transportation constraints and lower maintenance downtime, before declining slightly through the spring maintenance period in the second quarter of 2021. In the latter part of 2021, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 43 days, well above the balanced range of 29-36 days.

### Sales

The Company's pulp shipments in 2021 were 1.01 million tonnes, down 38,000 tonnes, or 4%, from 2020, principally due to the substantial vessel delays and global port congestion experienced throughout 2021 combined with weather-related rail disruptions due to wildfires and flooding in BC.

As mentioned, for the 2021 year as a whole, NBSK pulp list prices to China averaged near record-highs at US\$850 per tonne, up US\$262 per tonne, or 45%, compared to 2020. North American NBSK pulp list prices averaged US\$1,478 per tonne for the current year, up US\$339 per tonne, or 30%, year-over-year (before discounts, which were largely unchanged). Accordingly, average NBSK pulp unit sales realizations experienced a significant increase compared to 2020, moderated in part by the 5 cent, or 7%, stronger Canadian dollar. Average BCTMP unit sales realizations were broadly comparable to the historical lows experienced in 2020 as a gradual improvement in BCTMP US-dollar prices through the first half of the year was offset by a decline in pricing through most of the second half of 2021 and the stronger Canadian dollar.

Energy revenues in 2021 were broadly in line with the prior year as turbine operating days and energy generation were comparable year-over-year.

### Operations

Pulp production in 2021, at 1.02 million tonnes, was broadly in line with that produced in 2020, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Following the completion in mid-January of Northwood's RB5 rebuild, the Company's pulp mills had a strong start to the year, with solid operating rates throughout much of the first half of 2021. However, the onset of wildfires, flooding and intense cold in the latter half of the year contributed to transportation-related production curtailments at Northwood and Taylor and placed a significant strain on the Company's pulp mills. In addition, in late December, the Company commenced the rebuild of Northwood's RB1. Combined, these factors reduced pulp production by approximately 170,000 tonnes in 2021. Furthermore, the Company completed scheduled outages in the current year at its Intercontinental, Prince George and Taylor mills which reduced pulp production by 25,000 tonnes.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at the Company's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Pulp unit manufacturing costs were moderately higher compared to the prior year, principally reflecting higher fibre costs, and an increase in pulp unit conversion costs associated with higher maintenance and energy costs resulting from the aforementioned downtime. The increase in fibre costs compared to 2020 largely reflected higher market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices), partially offset by a decrease in the proportion of higher-cost whole log chips.

### Asset Impairment

In 2021, the Company recorded an asset impairment charge of \$95.0 million, driven by increased fibre costs as well as ongoing uncertainty surrounding fibre availability for the Company's pulp mills.

More information on the asset impairment is contained under "Critical Accounting Estimates – Asset Impairment".

# Paper

## Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2021 and 2020 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2021	2020
Sales	\$ 160.2	\$ 162.6
Operating income before amortization <sup>12</sup>	\$ 6.8	\$ 26.9
Operating income	\$ 4.3	\$ 24.0
Capital expenditures	\$ 0.4	\$ 1.4
Production – paper (000 mt)	126	123
Shipments – paper (000 mt)	127	131

<sup>12</sup> Amortization includes amortization of certain capitalized major maintenance costs.

### Markets

As mentioned, with the global pandemic continuing into 2021, the demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong. Demand in offshore markets that had been lagging North America experienced an uptick in the current year and gave rise to increased global supply pressures. As a result, overall global kraft paper pricing strengthened year-over-year.

### Sales

The Company's paper shipments in 2021, at 127,000 tonnes, were down 4,000 tonnes from 2020, primarily reflecting the timing of shipments year-over-year. Paper unit sales realizations for the current year were modestly up from prior year, reflecting an improvement in US-dollar kraft paper prices mostly offset by the stronger Canadian dollar.

### Operations

Paper production in 2021 was 126,000 tonnes, up 3,000 tonnes, from 2020, as the impact of a scheduled maintenance outage in the current year was less significant than the impact of fibre-related curtailments in the prior year. Notably higher paper unit manufacturing costs in 2021 were primarily due to a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK market pulp prices), while paper unit conversion costs were largely unchanged year-over-year.

# Unallocated and Other Items

## Selected Financial Information

(millions of Canadian dollars)	2021	2020
Corporate costs	\$ (14.0)	\$ (9.7)
Finance expense, net	\$ (5.0)	\$ (5.2)
Other income, net	\$ 9.5	\$ 30.7

### **Corporate Costs**

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$14.0 million in 2021, up \$4.3 million from 2020, largely reflecting a return to more normalized levels of head office and general and administrative expenses following COVID-19 cost reduction initiatives in the prior year, as well as, to a lesser extent, an increase in strategic-related spend year-over-year.

### **Finance Expense, Net**

Net finance expense for 2021 was \$5.0 million, down \$0.2 million from 2020. The decrease principally reflected lower interest expense associated with the Company's non-revolving term loan and reduced employee future benefit interest costs, offset in part by higher interest expense associated with the extension of the Company's non-revolving term loan in December 2021.



## Other Income, Net

Other income, net, of \$9.5 million for 2021 primarily reflected insurance proceeds of \$8.8 million (2020 – \$32.8 million), and to a lesser extent, favorable foreign exchange movements on US-dollar denominated working capital balances.

## Income Tax Recovery

The Company recorded an income tax recovery of \$16.6 million in 2021 with an overall effective tax rate of 27%.

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars)	2021	2020
Net loss before income taxes	\$ (61.0)	\$ (30.6)
Income tax recovery at statutory rate of 27% (2020 – 27%)	\$ 16.5	\$ 8.3
Add (deduct):		
Entities with different income tax rates and other tax adjustments	0.1	(0.1)
Income tax recovery	\$ 16.6	\$ 8.2

In addition to the amounts recorded in net loss, a tax expense of \$2.5 million was recorded to other comprehensive income in relation to actuarial gains, net, on the defined benefit plans in 2021 (December 31, 2020 – expense of \$0.3 million).

## Other Comprehensive Income

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income.

For 2021, a gain of \$9.4 million (before tax) was recorded in other comprehensive income, related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a 0.3% increase in the discount rate used to value the defined benefit plans, and to a lesser extent, a higher than anticipated return on plan assets.

For 2020, a gain of \$1.0 million (before tax) was recorded in other comprehensive income, related to changes in the valuation of the Company's defined benefit plans, as a higher than anticipated return on plan assets, and to a lesser extent, favourable actuarial experience adjustments, more than offset losses associated with a 0.3% decrease in the discount rate.

In 2020 and 2021, no buy-in annuities were purchased by the Company. As at December 31, 2021, the plan holds \$76.1 million of buy-in annuities purchased prior to 2019. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

After taking into account the impact of annuities, 43% of the change to the defined benefit pension plans is fully offset against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 25% is partially hedged through the plan's investment in debt securities.

For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

## SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2021 and 2020:

(millions of Canadian dollars, except for ratios)	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 73.3	\$ 6.8
Operating working capital	147.9	148.4
Net working capital	221.2	155.2
Property, plant and equipment and intangible assets	464.8	594.5
Other long-term assets	4.8	8.5
Net working capital and long-term assets	\$ 690.8	\$ 758.2
Term debt	50.0	50.0
Long-term lease obligations	2.1	1.5
Retirement benefit obligations	62.9	70.4
Other long-term provisions	7.0	8.7
Deferred income taxes, net	73.8	95.1
Total equity	495.0	532.5
	\$ 690.8	\$ 758.2
Ratio of current assets to current liabilities	2.5 : 1	2.0 : 1
Net debt (cash) to total capitalization <sup>13</sup>	(4.9)%	7.5%

<sup>13</sup> Net debt (cash) to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

Reflecting 2021's market conditions, operating rates, as well as the Company's management of working capital, the ratio of current assets to current liabilities at the end of 2021 was 2.5:1, compared to 2.0:1 at the end of 2020. See further discussion in "Changes in Financial Position" section.

The Company's net cash to capitalization was 4.9% at December 31, 2021 (December 31, 2020 – net debt to capitalization of 7.5%), primarily reflecting improved cash earnings from operations.

## CHANGES IN FINANCIAL POSITION

At the end of 2021, CPPI had \$73.3 million of cash and cash equivalents.

(millions of Canadian dollars)	<b>2021</b>	<b>2020</b>
Increase (decrease) in cash and cash equivalents	\$ 66.5	\$ 0.8
Operating activities	\$ 148.9	\$ 96.0
Financing activities	\$ (4.3)	\$ (22.4)
Investing activities	\$ (78.1)	\$ (72.8)

The changes in the components of these cash flows during 2021 are discussed in the following sections.

### Operating Activities

For the 2021 year, CPPI generated cash from operating activities of \$148.9 million, up \$52.9 million from \$96.0 million in the previous year. The improvement in operating cash flows was principally due to higher cash earnings in the current year, offset in part by unfavourable movements in non-cash working capital principally reflecting an increase in the carrying value of finished pulp and chip inventories in the current year, combined with a decline in accounts payable and accrued liabilities at the end of 2021 (timing-related).

### Financing Activities

In 2021, cash used in financing activities was \$4.3 million, compared to \$22.4 million in the prior year. Financing activities in 2021 principally related to interest paid on the Company's letters of credit, operating loan facility and non-revolving term debt. Financing activities in 2020 comprised a \$14.0 million repayment of the Company's principal operating loan facility as well as a dividend payment of \$4.1 million (reflecting a dividend of \$0.0625 per common share paid in the first quarter of 2020).

## **Investing Activities**

Net cash used for investing activities in 2021 was \$78.1 million, compared to \$72.8 million used in 2020. Capital expenditures of \$78.7 million in 2021 principally comprised of Northwood's RB5 lower furnace replacement early in the year combined with capital spending on reducing fossil fuel consumption and maintenance-of-business projects.

## **LIQUIDITY AND FINANCIAL REQUIREMENTS**

### **Operating Loan and Term Debt**

At December 31, 2021, the Company had a \$110.0 million unsecured operating loan facility which was unused, except for \$12.9 million reserved for several standby letters of credit, leaving \$97.1 million available and undrawn on its operating loan facility at the end of the year.

On December 15, 2021, the Company extended the maturity date of its committed operating loan facility from April 6, 2023 to December 15, 2025.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company.

On December 15, 2021, the Company extended the maturity date of its \$50.0 million non-revolving term debt from September 30, 2022 to December 15, 2024, with interest based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. The term loan covenants are consistent with the Company's existing operating loan facility.

### **Debt Covenants**

CPPI has certain financial covenants on its debt obligations that stipulate a maximum debt to total capitalization ratio. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt.

In circumstances when debt to total capitalization exceeds a threshold, CPPI is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. CPPI is not currently subject to this test.

Provisions contained in CPPI's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was fully in compliance with all of its debt covenants for the year ended December 31, 2021 and expects to remain so for the foreseeable future.

### **Normal Course Issuer Bid**

On March 6, 2020, the Company's normal course issuer bid expired and was not renewed.

As at December 31, 2021 and March 1, 2022 there were 65,233,559 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2020 – 54.8%).

### **2022 Projected Capital Spending and Debt Repayments**

Based on its current outlook, the Company anticipates that it will invest approximately \$70 million in capital projects in 2022 (excluding costs related to scheduled maintenance outages), with a primary focus on the rebuild of Northwood's RB1 lower furnace as well as strategic projects aimed at enhancing long-term fibre optimization, improving its carbon footprint and operational reliability. The Company currently plans to utilize its cash flow from operations and its available cash and operating loans to finance its capital expenditures during 2022.

## Commitments

Contractual obligations the Company is committed to include:

- Other contractual commitments, not previously mentioned, total \$34.1 million, which include commitments for the construction of capital assets and other working capital items. Commitments related to leases of property, plant and equipment are detailed in Note 6 of CPPI's 2021 consolidated financial statements.
- The Company has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements included incentive funding from a BC energy company to support capital investments for a turbo generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2021 the Company had posted \$2.2 million of standby letters of credit under these agreements and had no repayment obligations under the terms of any of these agreements.
- The Company's asset retirement obligations represent estimated undiscounted future payments of \$10.8 million to remediate landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 1 to 30 years and have been discounted at risk free rates ranging from 0.6% to 1.7%. The estimated discounted value is \$8.1 million, of which \$6.7 million is included in 'Other long-term provisions' and \$1.4 million is included in 'Accounts payable and accrued liabilities' on CPPI's 2021 consolidated balance sheet.
- Obligations to pay defined benefit pension plans and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2021 was \$62.9 million. As at December 31, 2021, CPPI estimated that it would make contribution payments of \$2.3 million to its defined benefit pension plans in 2022 based on the last actuarial valuation for funding purposes.
- Purchase and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

## TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise.

In 2021, the Company depended on Canfor to provide approximately 60% of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022.

In 2021, the Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of \$197.4 million.

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2021 was \$22.9 million. These amounts are included in 'Manufacturing and product costs' and 'Selling and administration costs' within CPPI's 2021 consolidated financial statements.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2021 was \$3.8 million. These amounts are included as a cost recovery in 'Manufacturing and product costs' and 'Selling and administration costs' within CPPI's 2021 consolidated financial statements. At December 31, 2021, an outstanding balance of \$16.0 million was owed to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 51.2% at December 31, 2021. During 2021, the Company sold paper to subsidiaries owned by The Jim Pattison Group totaling \$1.7 million. The Company also made purchases from subsidiaries owned by The Jim Pattison Group totaling \$0.6 million. At December 31, 2021, an outstanding balance of \$0.1 million was owed to subsidiaries owned by the Jim Pattison Group.

Additional details on related party transactions are contained in Note 18 to CPPI's 2021 consolidated financial statements.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
<b>Sales and income (loss)</b> (millions of Canadian dollars)								
Sales	\$ 249.3	\$ 298.9	\$ 334.3	\$ 262.4	\$ 237.8	\$ 226.4	\$ 250.7	\$ 275.6
Operating income (loss) before amortization and impairment <sup>14</sup>	\$ (19.6)	\$ 37.8	\$ 72.9	\$ 25.7	\$ (6.2)	\$ (8.7)	\$ 13.3	\$ 27.7
Operating income (loss)	\$ (137.2)	\$ 15.8	\$ 51.0	\$ 4.9	\$ (28.3)	\$ (27.6)	\$ (6.3)	\$ 6.1
Net income (loss)	\$ (101.1)	\$ 12.1	\$ 36.2	\$ 8.4	\$ (10.2)	\$ (18.1)	\$ (1.1)	\$ 7.0
<b>Per common share</b> (Canadian dollars)								
Net income (loss) – basic and diluted	\$ (1.55)	\$ 0.19	\$ 0.55	\$ 0.13	\$ (0.16)	\$ (0.28)	\$ (0.02)	\$ 0.11
Book value <sup>15</sup>	\$ 7.59	\$ 9.09	\$ 8.89	\$ 8.37	\$ 8.16	\$ 8.25	\$ 8.57	\$ 8.66
<b>Statistics</b>								
Pulp shipments (000 mt)	216	241	285	265	258	249	248	290
Paper shipments (000 mt)	27	34	30	37	35	27	36	34
Average exchange rate – US\$/Cdn\$	\$ 0.794	\$ 0.794	\$ 0.814	\$ 0.790	\$ 0.767	\$ 0.751	\$ 0.722	\$ 0.744
Average NBSK pulp list price delivered to China (US\$)	\$ 723	\$ 832	\$ 962	\$ 883	\$ 637	\$ 572	\$ 572	\$ 573

<sup>14</sup> Amortization includes amortization of certain capitalized major maintenance costs; includes an asset impairment charge of \$95.0 million in 2021.

<sup>15</sup> Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and operating income (loss) before amortization and impairment are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and production operating rates and curtailments. Net income (loss) is also impacted by fluctuations in Canadian dollar exchange rates and the revaluation to the period end rate of US-dollar denominated working capital balances.

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
(millions of Canadian dollars)								
Operating income (loss) by segment:								
Pulp	\$ (135.2)	\$ 22.1	\$ 53.6	\$ 3.7	\$ (30.2)	\$ (29.3)	\$ (12.0)	\$ 1.1
Paper	\$ 1.7	\$ (2.5)	\$ 0.9	\$ 4.2	\$ 4.8	\$ 5.0	\$ 7.4	\$ 6.8
Unallocated	\$ (3.7)	\$ (3.8)	\$ (3.5)	\$ (3.0)	\$ (2.9)	\$ (3.3)	\$ (1.7)	\$ (1.8)
<b>Total operating income (loss)</b>	\$ (137.2)	\$ 15.8	\$ 51.0	\$ 4.9	\$ (28.3)	\$ (27.6)	\$ (6.3)	\$ 6.1
Add: Amortization <sup>16</sup>	\$ 22.6	\$ 22.0	\$ 21.9	\$ 20.8	\$ 22.1	\$ 18.9	\$ 19.6	\$ 21.6
Add: Asset impairment	\$ 95.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total operating income (loss) before amortization and impairment</b>	\$ (19.6)	\$ 37.8	\$ 72.9	\$ 25.7	\$ (6.2)	\$ (8.7)	\$ 13.3	\$ 27.7
Add (deduct):								
Working capital movements	\$ 50.6	\$ (28.3)	\$ (11.0)	\$ (15.2)	\$ 4.0	\$ (12.4)	\$ 42.8	\$ (22.6)
Defined benefit pension plan contributions	\$ (0.6)	\$ (0.9)	\$ (0.9)	\$ (1.1)	\$ (0.6)	\$ (0.3)	\$ (1.0)	\$ (1.4)
Income taxes received (paid), net	\$ 3.3	\$ 22.7	\$ 0.3	\$ (0.3)	\$ (0.1)	\$ (0.2)	\$ -	\$ 29.3
Other operating cash flows, net	\$ 1.1	\$ 3.3	\$ 0.9	\$ 8.2	\$ 13.9	\$ 5.2	\$ 6.8	\$ 6.5
<b>Cash from (used in) operating activities</b>	\$ 34.8	\$ 34.6	\$ 62.2	\$ 17.3	\$ 11.0	\$ (16.4)	\$ 61.9	\$ 39.5
Add (deduct):								
Capital additions, net	\$ (16.0)	\$ (14.3)	\$ (15.4)	\$ (33.0)	\$ (34.2)	\$ (8.1)	\$ (12.2)	\$ (18.8)
Dividends paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4.1)
Other, net	\$ (1.2)	\$ (0.7)	\$ (0.9)	\$ (0.9)	\$ (0.8)	\$ (0.7)	\$ (0.7)	\$ (1.6)
<b>Change in cash / operating loans</b>	\$ 17.6	\$ 19.6	\$ 45.9	\$ (16.6)	\$ (24.0)	\$ (25.2)	\$ 49.0	\$ 15.0

<sup>16</sup> Amortization includes amortization of certain capitalized major maintenance costs.

## THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2021	2020	2019
Sales	\$ 1,144.9	\$ 990.5	\$ 1,087.9
Net loss	\$ (44.4)	\$ (22.4)	\$ (30.5)
Total assets	\$ 841.7	\$ 920.8	\$ 920.8
Term debt	\$ 50.0	\$ 50.0	\$ 50.0
Net loss per share, basic and diluted	\$ (0.68)	\$ (0.34)	\$ (0.47)
Dividends declared per share	\$ -	\$ -	\$ 0.250

## FOURTH QUARTER RESULTS

### Overview

For the fourth quarter of 2021, the Company reported an operating loss of \$137.2 million. After taking account of adjusting items, largely comprised of an asset impairment, the Company's operating loss for the fourth quarter of 2021 was \$41.1 million compared to an adjusted operating income of \$19.3 million for the previous quarter and an adjusted operating loss of \$31.3 million for the fourth quarter of 2020.

The loss in the current period reflected weaker global pulp market conditions, combined with the significant impact of severe weather conditions on the Company's operations and shipments in the current quarter, as well as capital-related downtime at Northwood. Compared to the third quarter of 2021, the Company's unit sales realizations experienced a steep decline that was largely tied to the sharp decline in global US-dollar list prices, particularly in China. Reduced production in the current period was the result of a very challenging operating quarter, principally driven by weather-related challenges and transportation disruptions most notably at Northwood and Taylor, as well as the Company's decision to rebuild the lower furnace of RB1 at Northwood. The RB1 lower furnace replacement is progressing as planned, with completion anticipated by the end of the first quarter of 2022. Compared to the fourth quarter of 2020, earnings decreased as substantially higher US-dollar NBSK pulp list prices in the current period were more than outweighed by an 18% reduction in pulp production and the stronger Canadian dollar.

An overview of the results by business segment for the fourth quarter of 2021 compared to the third quarter of 2021 and the fourth quarter of 2020 follows.

### Pulp

#### Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q4 2021	Q3 2021	Q4 2020
Sales	\$ 212.4	\$ 255.6	\$ 197.1
Operating income (loss) before amortization and impairment <sup>17</sup>	\$ (18.1)	\$ 43.4	\$ (8.9)
Operating income (loss)	\$ (135.2)	\$ 22.1	\$ (30.2)
Asset impairment	\$ 95.0	\$ -	\$ -
Inventory write-downs (recovery)	\$ 1.1	\$ 3.5	\$ (3.0)
Adjusted operating income (loss) <sup>18</sup>	\$ (39.1)	\$ 25.6	\$ (33.2)
Average NBSK pulp price delivered to China – US\$ <sup>19</sup>	\$ 723	\$ 832	\$ 637
Average NBSK pulp price delivered to China – Cdn\$ <sup>19</sup>	\$ 911	\$ 1,048	\$ 830
Production – pulp (000 mt)	190	247	233
Shipments – pulp (000 mt)	216	241	258

<sup>17</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>18</sup> Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

<sup>19</sup> Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn\$ calculated as average NBSK pulp net price delivered to China – US\$ multiplied by the average exchange rate – Cdn\$ per US\$1.00 according to Bank of Canada monthly average rate for the period.

### Markets

After declining in October and November, NBSK pulp prices to China, the world's largest pulp consumer, showed a modest recovery in December following unexpected global supply disruptions and ended the quarter at US\$760 per tonne. As a result, average US-dollar NBSK pulp list prices to China averaged US\$723 per tonne during the current

quarter, down US\$109 per tonne, or 13%, from the previous quarter. Prices to other global regions experienced more modest declines compared to the comparative period, with the average US-dollar NBSK pulp list price to North America at US\$1,472 per tonne (before discounts), down US\$70 per tonne, or 5%, from the comparative period.

Global softwood pulp producer inventories at the end of December 2021 remained well above the balanced range at 43 days of supply, a decrease of two days from September 2021 (market conditions are generally considered balanced when inventories are in the 29-36 days of supply range), as a decline in demand from China was intensified by ongoing global supply chain disruptions.

### Sales

The Company's pulp shipments for the fourth quarter of 2021 totaled 216,000 tonnes, down 25,000 tonnes, or 10%, from the third quarter of 2021 and down 42,000 tonnes, or 16%, from the fourth quarter of 2020. Decreased shipments compared to the previous quarter principally reflected the impact of weather-related transportation disruptions in BC and the associated decrease in production volumes, combined with the ongoing effects of a constrained global logistics network, offset in part by a drawdown of inventory in the current quarter during the aforementioned Northwood RB1 downtime. Compared to the fourth quarter of 2020, the decrease in pulp shipments corresponded to an 18% decrease in pulp production in the current quarter, as well as the timing of shipments quarter-over-quarter.

The Company's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally tied to the declines in global US-dollar list prices. The downward trend in demand and US-dollar prices for BCTMP, particularly from the printing and writing segment, continued through the current quarter giving rise to a significant decline in the Company's BCTMP unit sales realizations quarter-over-quarter.

Compared to the fourth quarter of 2020, the average China US-dollar NBSK pulp list price was up US\$86 per tonne, or 14%, while US-dollar list prices on shipments to North America were up US\$333 per tonne, or 29%, over the same period. These higher global US-dollar prices resulted in substantially higher average NBSK pulp unit sales realizations, offset in part, by a 3 cent, or 3%, stronger Canadian dollar. Average BCTMP unit sales realizations were moderately down compared to the same quarter in the prior year, as modest upward momentum in BCTMP US-dollar pricing late in the current period was more than offset by the stronger Canadian dollar.

Energy revenues were moderately lower than the prior quarter as decreased energy generation, primarily due to Northwood downtime, was offset by seasonally higher energy prices in the current quarter. Energy revenues were broadly in line with the fourth quarter of 2020.

### Operations

Pulp production was 190,000 tonnes for the fourth quarter of 2021, down 57,000 tonnes, or 23%, from the third quarter of 2021, largely reflecting the quarter-over-quarter impact of downtime.

The current quarter was particularly challenging as unprecedented flooding and harsh winter conditions in BC, significantly impacted the operational performance at all the Company's pulp mills and resulted in material transportation-related downtime at Northwood and Taylor. Production at Northwood was also impacted by the extended outage on one production line from early December to enable the replacement of RB1's lower furnace. Combined, these factors reduced current quarter NBSK pulp production by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes.

In the third quarter of 2021, decreased operating days largely reflected scheduled maintenance outages at the Company's Prince George NBSK pulp mill ("PG") and Taylor, as well as incremental downtime at Northwood and Taylor reflecting both weather-related rail disruptions and, in the case of Northwood, digester-related operational upsets in July (combined, reducing pulp production by approximately 42,000 tonnes). In addition, the previous quarter's pulp production reflected various smaller operational upsets through the quarter (approximately 15,000 tonnes).

Compared to the fourth quarter of 2020, pulp production was down 43,000 tonnes, or 18%, reflecting the increased downtime in the current quarter. In the comparative 2020 period, completion of Northwood's scheduled maintenance outage in October, as well as an extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace, reduced pulp production by approximately 85,000 tonnes.



Pulp unit manufacturing costs were significantly higher than the prior quarter principally reflecting reduced production in the current period, offset in part by decreased energy usage and lower maintenance spend. Compared to the fourth quarter of 2020, pulp unit manufacturing costs were notably higher, mostly attributable to lower production combined with market-related increases in fibre costs in the current quarter.

#### Asset Impairment

An asset impairment charge of \$95.0 million was recorded in the fourth quarter of 2021 on the property, plant and equipment for the pulp segment. See "Critical Accounting Estimates – Asset Impairment" for further details.

## **Paper**

### **Selected Financial Information and Statistics – Paper**

(millions of Canadian dollars, unless otherwise noted)	<b>Q4 2021</b>	<b>Q3 2021</b>	<b>Q4 2020</b>
Sales	\$ 36.9	\$ 43.3	\$ 40.7
Operating income (loss) before amortization <sup>20</sup>	\$ 2.2	\$ (1.9)	\$ 5.6
Operating income (loss)	\$ 1.7	\$ (2.5)	\$ 4.8
Production – paper (000 mt)	31	31	36
Shipments – paper (000 mt)	27	34	35

<sup>20</sup> Amortization includes amortization of certain capitalized major maintenance costs.

#### Markets

Global kraft paper markets continued to strengthen through the fourth quarter of 2021, supported by solid demand from the North American and Asian markets.

#### Sales

The Company's paper shipments in the fourth quarter of 2021 were 27,000 tonnes, down 7,000 tonnes from the previous quarter, and down 8,000 tonnes from the fourth quarter of 2020, principally reflecting lower paper production in the current period combined with the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the fourth quarter of 2021 were moderately higher than the previous quarter, largely attributable to the strengthening of global US-dollar paper pricing in the current period. Compared to the fourth quarter of 2020, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter, offset in part by the stronger Canadian dollar.

#### Operations

Paper production for the fourth quarter of 2021 was 31,000 tonnes, broadly in line with the previous quarter, as reduced productivity tied to several operational challenges at the PG pulp and paper mill in the current quarter, offset the PG pulp and paper mill's scheduled maintenance outage in the previous period. Compared to the fourth quarter of 2020, paper production was down 5,000 tonnes largely due to reduced productivity in the current quarter.

Paper unit manufacturing costs were moderately lower than the third quarter of 2021, primarily reflecting a decline in slush pulp costs, driven by the decrease in average NBSK pulp unit sales realizations in the current quarter and, to a lesser extent, reduced spend on operating supplies (timing-related). Compared to the fourth quarter of 2020, paper unit manufacturing costs saw a substantial increase, principally driven by higher slush pulp costs, with conversion costs comparable quarter-over-quarter.

## **Unallocated Items**

(millions of Canadian dollars)	<b>Q4 2021</b>	<b>Q3 2021</b>	<b>Q4 2020</b>
Corporate costs	\$ (3.7)	\$ (3.8)	\$ (2.9)
Finance expense, net	\$ (1.5)	\$ (1.1)	\$ (1.2)
Other income (expense), net	\$ 0.1	\$ 1.8	\$ (15.6)

Corporate costs were \$3.7 million for the fourth quarter of 2021, broadly in line with the third quarter of 2020, and up \$0.8 million compared to the fourth quarter of 2020. The latter variance largely reflected a slight increase in head office and general administrative expenses in the current period.

Net finance expense for the fourth quarter of 2021 was \$1.5 million, up \$0.4 million compared to the third quarter of 2021 and up \$0.3 million compared to the fourth quarter of 2020, principally related to higher interest expense associated with the extension of the maturity date for the Company's term debt to December 15, 2024. See section "Liquidity and Financial Requirements" for further details.

Other income, net, of \$0.1 million in the fourth quarter of 2021 was largely due to favourable foreign exchange movements on US-dollar denominated working capital balances. Other income, net, of \$1.8 million in the third quarter of 2021 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances. Other expense, net of \$15.6 million for the fourth quarter of 2020 primarily consisted of insurance proceeds of \$17.7 million, offset in part by unfavourable foreign exchange movements on US-dollar denominated working capital balances. The former was related to unscheduled downtime in 2018 at Northwood to enable necessary tube replacements to RB5, rectifying damage discovered during routine preventative maintenance inspections.

### Other Comprehensive Income

In the fourth quarter of 2021, the Company recorded a gain of \$4.5 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a higher than anticipated return on plan assets.

This compared to a gain of \$1.2 million (before tax) in the third quarter of 2021, largely reflecting a higher than anticipated return on plan assets.

In the fourth quarter of 2020, the Company recorded a gain of \$6.4 million (before tax) related to changes in the valuation of the Company's defined benefit plans, largely reflecting favourable actuarial experience adjustments and a higher than anticipated return on plan assets.

### Summary of Financial Position

The following table summarizes CPPI's cash flow for the following periods:

(millions of Canadian dollars)	Q4 2021	Q3 2021	Q4 2020
Increase (decrease) in cash and cash equivalents	\$ 17.6	\$ 19.6	\$ (24.0)
Operating activities	\$ 34.8	\$ 34.6	\$ 11.0
Financing activities	\$ (1.3)	\$ (1.2)	\$ (0.9)
Investing activities	\$ (15.9)	\$ (13.8)	\$ (34.1)

### Operating Activities

Cash generated from operating activities in the fourth quarter of 2021 was \$34.8 million, broadly comparable to the third quarter of 2021 and up \$23.8 million from the cash generated of \$11.0 million in the fourth quarter of 2020. Compared to the fourth quarter of 2020, the improvement in operating cash flows was largely due to favourable movements in non-cash working capital, offset in part by reduced operating earnings quarter-over-quarter. The former primarily reflected lower accounts receivable balances at the end of the current period and a drawdown of pulp inventories quarter-over-quarter.

### Financing Activities

Cash used for financing activities in the fourth quarter of 2021 was \$1.3 million, mostly in line with the third quarter of 2021, and \$0.4 million higher than cash used of \$0.9 million in the fourth quarter of 2020. Cash used for financing activities in the current quarter primarily reflected interest expense and fees associated with the extension of the maturity date of the Company's operating loan facility and non-revolving term debt combined with financing fees associated with letters of credit.

## Investing Activities

Cash used for investing activities of \$15.9 million in the current and prior quarter was primarily comprised of maintenance-of-business capital. In the fourth quarter of 2020, cash used for investing activities largely reflected Northwood's RB5 capital upgrades, the completion of the construction of a new water treatment plant servicing the Company's PG and Intercontinental NBSK pulp mills, as well as maintenance-of-business capital.

## SPECIFIC ITEMS AFFECTING COMPARABILITY

### Specific Items Affecting Comparability of Net Income (Loss)

Factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
<b>Net income (loss), as reported</b>	\$ (101.1)	\$ 12.1	\$ 36.2	\$ 8.4	\$ (10.2)	\$ (18.1)	\$ (1.1)	\$ 7.0
Asset impairment	\$ 69.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Adjusted net income (loss)<sup>21</sup></b>	\$ (31.7)	\$ 12.1	\$ 36.2	\$ 8.4	\$ (10.2)	\$ (18.1)	\$ (1.1)	\$ 7.0
<b>Net income (loss) per share (EPS), as reported</b>	\$ (1.55)	\$ 0.19	\$ 0.55	\$ 0.13	\$ (0.16)	\$ (0.28)	\$ (0.02)	\$ 0.11
Net impact of above items per share	\$ 1.06	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Adjusted net income (loss) per share<sup>21</sup></b>	\$ (0.49)	\$ 0.19	\$ 0.55	\$ 0.13	\$ (0.16)	\$ (0.28)	\$ (0.02)	\$ 0.11

<sup>21</sup> Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

## OUTLOOK

### Pulp Markets

In early 2022, global softwood kraft pulp market conditions have strengthened somewhat, largely in response to unexpected global supply outages and a heavily congested supply chain network, combined with an uptick in market demand from China. Notwithstanding high inventory levels and the potential for ongoing supply chain driven pricing volatility, global softwood kraft pulp markets are projected to continue to strengthen moderately through the first quarter of 2022, reflecting the ongoing improvement in demand from China coupled with tight global supply. Modest increases experienced in the high yield BCTMP market through the fourth quarter of 2021 are anticipated to continue through the first quarter of 2022.

Despite the recent uplift in global pulp markets, the limited and intermittent rail service in BC experienced in recent weeks has put further pressure on an already constrained global logistics network. Consequently, as previously announced, the Company's results in the first quarter of 2022 will reflect a minimum six-week curtailment at Taylor, with a projected 25,000 tonnes of reduced BCTMP production. The Company also anticipates that the transportation disruptions will result in lower projected NBSK pulp and paper shipment volumes in the first quarter of 2022. The Company will continue to monitor and adapt to the unfolding logistic situation over the coming weeks. In addition, global inflationary cost increases, particularly for chemicals, are projected to weigh on the Company's results in the first quarter of 2022.

Furthermore, the Company's results in the first quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into late-March, including reduced pulp production (approximately 70,000 tonnes) and shipments, as well as higher pulp unit manufacturing costs. As the RB1 rebuild approaches completion a key focus of the Company's kraft pulp mills in 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first quarter of 2022. In the second quarter of 2022, a maintenance outage is currently planned at Northwood and Taylor, with a projected 25,000 tonnes of reduced NBSK pulp production and an estimated 5,000 tonnes of reduced BCTMP production, respectively. In addition, a maintenance outage is scheduled at the Intercontinental NBSK pulp mill in the third quarter of 2022 with a projected 10,000 tonnes of reduced NBSK pulp production.

## Paper Markets

Bleached kraft paper markets are anticipated to continue to strengthen through the first quarter of 2022, as growing demand for paper products, largely driven by the environmental, social and regulatory pressures to eliminate single-use plastics, is combined with tight supply and low inventories in the North American and Asian paper markets.

## NON-IFRS FINANCIAL MEASURES

Throughout this MD&A, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's consolidated financial statements:

(millions of Canadian dollars)	Q4 2021	Q3 2021	YTD 2021	Q4 2020	YTD 2020
Reported operating income (loss)	\$ (137.2)	\$ 15.8	\$ (65.5)	\$ (28.3)	\$ (56.1)
Asset impairment	\$ 95.0	\$ -	\$ 95.0	\$ -	\$ -
Inventory write-down (recovery), net	\$ 1.1	\$ 3.5	\$ 2.4	\$ (3.0)	\$ (8.5)
Adjusted operating income (loss)	\$ (41.1)	\$ 19.3	\$ 31.9	\$ (31.3)	\$ (64.6)
Amortization	\$ 22.6	\$ 22.0	\$ 87.3	\$ 22.1	\$ 82.2
Adjusted operating income (loss) before amortization and impairment	\$ (18.5)	\$ 41.3	\$ 119.2	\$ (9.2)	\$ 17.6

(millions of Canadian dollars, except ratios)	2021	2020
Reported operating income (loss)	\$ (65.5)	\$ (56.1)
Other income (expense), net	\$ 9.5	\$ 30.7
Return	\$ (56.0)	\$ (25.4)
Average invested capital <sup>22</sup>	\$ 736.8	\$ 793.8
Return on invested capital (ROIC)	(7.6)%	(3.2)%

<sup>22</sup> Average invested capital represents the average during the period of total assets excluding cash and cash equivalents and total liabilities excluding term debt, retirement benefit obligations and deferred taxes.

(millions of Canadian dollars, except ratios)	As at December 31, 2021	As at December 31, 2020
Term-debt	\$ 50.0	\$ 50.0
Less: cash and cash equivalents	\$ 73.3	\$ 6.8
Net debt (cash)	\$ (23.3)	\$ 43.2
Total equity	\$ 495.0	\$ 532.5
Total capitalization	\$ 471.7	\$ 575.7
Net debt (cash) to total capitalization	(4.9%)	7.5%

## CRITICAL ACCOUNTING ESTIMATES

*The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, Management does not believe it is likely that any such differences will materially affect CPPI's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.*

## Employee Future Benefits

CPPI has various defined benefit and defined contribution plans providing both pension and other non-pension post-retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. CPPI also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other non-pension post-retirement benefit plans are accrued in accordance with the requirements of IFRS.

CPPI uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other non-pension post-retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increases, mortality assumptions and the assumed health care cost trend rates. Management evaluates these assumptions quarterly based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through other comprehensive income (loss).

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	<b>December 31, 2021</b>		December 31, 2020	
	<b>Defined Benefit Pension Plans</b>	<b>Other Benefit Plans</b>	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	<b>3.0%</b>	<b>3.0%</b>	2.7%	2.7%
Rate of compensation increases	<b>3.0%</b>	<b>n/a</b>	3.0%	n/a
Initial medical cost trend rate	<b>n/a</b>	<b>5.0%</b>	n/a	5.0%
Ultimate medical cost trend rate	<b>n/a</b>	<b>4.5%</b>	n/a	4.5%
Year ultimate rate is reached	<b>n/a</b>	<b>2025</b>	n/a	2025

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued retirement benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2021 is between 21.3 years and 24.3 years. As at December 31, 2021, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.8 years. The weighted average duration of the other benefit plans is 12.1 years.

## **Asset Retirement Obligations**

CPPI records the estimated fair value of liabilities for asset retirement obligations, such as landfill closures, in the period in which they are incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 1 to 30 years and have been discounted at risk-free rates ranging from 0.6% to 1.7%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

## **Asset Impairment**

As previously indicated, the Company recorded an asset impairment of \$95.0 million in its pulp segment in 2021.

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment and right-of-use assets, on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income (loss) at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

As a result of increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as of December 31, 2021 on the property, plant and equipment of the pulp and paper cash-generating unit ("CGU").

The recoverable amount of the Company's property, plant and equipment within the pulp and paper CGU was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp and paper industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 8% (11% before tax), based on CPPI's weighted average cost of capital for 2021.

## Deferred Taxes

In accordance with IFRS, CPPI recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on Management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. CPPI re-evaluates its deferred income tax assets on a regular basis.

## Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of finished goods inventories based on actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using Management's estimates at the end of the period and may differ from the actual prices at which the inventories are sold. Based on these estimates, net write-downs of the Company's finished pulp and raw materials inventories from cost to net realizable value totaled \$2.4 million at December 31, 2021.

## RISKS AND UNCERTAINTIES

*Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, raw materials, capital requirements, dependence on certain relationships, government regulations, public policy and labour disputes, and Native land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, CPPI does not foresee unmanageable adverse effects on its business operations from and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.*

### Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to enhance its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2021 were \$78.7 million. The Company anticipates available cash and operating loans, as well as cash generated from operations, will be sufficient to fund its operating needs and capital expenditures.

### Climate Change

The Company's operations are subject to risks and opportunities related to climate change. These risks include, but are not limited to, chronic and acute physical risks such as the increasing frequency and severity of weather conditions, forest fires, hurricanes, earthquakes and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect Canfor's timber supply or result in reduced transportation availability. These events could have similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the Company's financial results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there is no guarantee that these arrangements will fully protect the Company against such losses.

There are also transition risks associated with climate change. These include changes in laws, regulations and industry standards associated with climate change. The Company monitors all regulatory changes to assess their impact on operations including any climate-related regulations. The Company considers adaptation and mitigation strategies to manage and reduce greenhouse gas emissions and is in the process of establishing a decarbonization roadmap. However, there is no guarantee that these efforts will be effective, and these risks may lead to increased capital expenditure or payment of carbon taxes or could adversely affect our operations or financial conditions.

The Company is committed to its sustainable forest management practices, which includes climate change, in consultation with Indigenous Partners and stakeholders. However, there may be reputational risks due to rising

prominence of environment, social and governance concerns among the Company's stakeholders and Indigenous Partners which could impact public opinions about the Company and its industry and could adversely affect its reputation, business, strategy and operations. The Company continues to work closely with our Indigenous Partners and stakeholders to understand their interests, identify risks and opportunities and gauge effectiveness of our management actions.

## **Competitive Markets**

The Company's products are sold primarily in Asia and North America, with smaller volumes to other markets. The markets for the Company's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include price, quality of product, volume, availability and reliability of supply, financial viability and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; chemical, energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; and productivity in relation to its competitors. Access to markets could be influenced by global trade agreements, global Government relations and their impact on free trade. These factors could potentially limit market growth opportunities or limit the Company's ability to service its customers.

## **Coronavirus Outbreak (COVID-19)**

On March 11, 2020, the World Health Organization declared COVID-19 pandemic. During the year ended December 31, 2021, there were no significant adverse impacts of COVID-19 on the Company. However, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

## **Currency Exchange Risk**

The Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US-dollar, as prices for the Company's products are denominated in US-dollars or linked to prices quoted in US-dollars. Therefore, an increase in the value of the Canadian dollar relative to the US-dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US-dollars, which in turn, reduces the Company's operating margin and the cash flow available.

## **Cyclical of Product Prices**

The Company's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, increased global production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. Prices of pulp, in particular, have historically, to some degree, been unpredictable.

## **Dependence on Canfor**

In 2021, approximately 60% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

## **Dependence on Key Customers**

In 2021, the Company's top five customers accounted for approximately 41% of its pulp sales and one customer in the pulp segment accounted for 16% of the Company's total sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

## **Dividends**

In April 2020, recognizing the ongoing difficult conditions and uncertainties caused by COVID-19, and in support of the Company's cash preservation efforts, the Board of Directors decided to suspend the quarterly dividend for the foreseeable future.

## **Employee Future Benefits**

The Company, in participation with Canfor, has several defined benefit plans, which provide pension benefits to certain salaried employees. Pension plan benefits are based on a combination of years of service and final average salary. Cash payments required to fund the pension plan are determined by actuarial valuations completed at least once every three years, with the most recent actuarial valuation for the largest plan conducted as of December 31, 2020, and completed in 2021.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the fair market value of plan assets and an actuarial estimate of future liabilities. Any deficit in the registered plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, the Company through Canfor, is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

The Company utilizes investments in buy-in annuities to reduce its exposure to these risks. Future cash flows from the annuities match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation, net of annuity assets, by an estimated \$12.1 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated \$15.0 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

## **Environmental Issues**

The Company is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Company to comply with specific requirements as described in regulations. Regulations may also require the Company to obtain authorizations and comply with the authorization requirements of the appropriate governmental authorities which have considerable discretion over the terms and timing of said authorizations and permits.

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. In addition, the Company's operations will be subject to increasing costs associated with carbon related taxes and will be actively working to mitigate through investment in green technology. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.



The Company, in conjunction with Canfor, has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental, Health and Safety Committee of the Board, a Corporate Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues and liabilities.

The Company, in conjunction with Canfor, has in place internal policies and procedures under which all operations are regularly audited for compliance with laws and accepted standards and with its environmental management system requirements. CPPI's pulp mills employ environmental management systems and are certified under the ISO 14001 Environmental Management System Standard.

Further discussion of environmental issues is included in the Company's Annual Information Form, incorporated by reference herein.

## **Financial Risk Management and Earnings Sensitivities**

Demand for pulp and paper products is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. CPPI competes in a global market and the majority of its products are sold in US-dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact CPPI's revenues and earnings.

### ***Financial Risk Management***

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

CPPI's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of the Company.

#### *(a) Credit risk:*

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable. Contract assets are also subject to credit risk. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2021 is \$73.3 million.

CPPI utilizes credit insurance to manage the risk associated with trade accounts receivables. As at December 31, 2021, approximately 89% of the outstanding trade accounts receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade accounts receivable balance at December 31, 2021 is \$67.7 million before a loss allowance of \$1.0 million. At December 31, 2021, approximately 100% of the trade accounts receivable balance are within CPPI's established credit terms.

#### *(b) Liquidity risk:*

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash flow forecasting in conjunction with an adequate operating loan facility and term debt.

At December 31, 2021, CPPI had cash and cash equivalents of \$73.3 million, with \$97.1 million available and undrawn on its operating loan facility. As a result, at December 31, 2021, the Company had available liquidity of \$170.4 million, accounts payable and accrued liabilities of \$147.0 million, and term debt of \$50.0 million.

#### *(c) Market risk:*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

(i) *Interest rate risk:*

CPPI is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates.

As noted earlier in this section (under "Employee Future Benefits"), CPPI is also exposed to interest rate risk in relation to the measurement of the Company's pension and non-pension post-retirement liabilities.

(ii) *Currency risk:*

CPPI is exposed to foreign exchange risk primarily related to the US-dollar, as CPPI products are sold globally with prices primarily denominated in US-dollars or linked to prices quoted in US-dollars with certain expenditures transacted in US-dollars. In addition, the Company holds financial assets and liabilities in US-dollars. These primarily include US-dollar bank accounts and trade accounts.

An increase (decrease) in the value of the Canadian dollar by US\$0.01 would result in a pre-tax loss (gain) of approximately \$0.5 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) *Commodity price risk:*

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and energy prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 1% of pulp sales may be sold in this way.

CPPI is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third party regulatory bodies.

(iv) *Energy price risk:*

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations. The annual exposure is, from time to time, hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months.

At December 31, 2021 the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

### ***Earnings Sensitivities***

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2022 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US\$10 change per tonne <sup>23</sup>	\$ 11
BCTMP – US\$10 change per tonne <sup>23</sup>	\$ 3
Natural gas cost – \$1 change per gigajoule	\$ 12
Chip cost – \$1 change per tonne	\$ 3
Canadian dollar – US\$0.01 change per Canadian dollar <sup>24</sup>	\$ 8

<sup>23</sup> Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

<sup>24</sup> Represents impact on operating income (loss) and excludes the impact on operating loans denominated in US\$. Decrease of US\$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US\$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

## Government and Other Regulations

The Company is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. If the Company is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Company's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

## Increased Industry Production Capacity

The Company currently faces major competition in the global pulp industry and may face increased industry competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows, and the Company may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

## Indigenous Relations

CPPI sources the majority of its fibre from areas subject to claims of Indigenous rights or title. In November 2019, the Government of BC passed legislation (*Declaration on the Rights of Indigenous People Act*) to implement the United Nations Declaration on the Rights of Indigenous Peoples. The legislation aims to create a path forward that respects the human rights of Indigenous peoples while introducing better transparency and predictability to the work the BC government and Indigenous peoples do together. This work aims to foster increased and lasting certainty on the land base while ensuring that the benefits of sustainable forest harvesting are realized equitably by those engaged in and impacted by the forestry industry.

In December 2020, the Government of Canada tabled Bill C-15, which is the federal government's response to implementing the United Nations' *Declaration on the Rights of Indigenous People Act*. The Bill proceeded through the legislative process and was enacted into law in June 2021.

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups. In June 2014, the Supreme Court of Canada, for the first time, recognized Indigenous title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Indigenous title lands.

While Indigenous title had previously been assumed over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Indigenous title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Indigenous title. The decision also defines what Indigenous title means and the types of land uses consistent with this form of collective ownership.

On June 29, 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the Blueberry River First Nation ("BRFN") "in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory" (the "Blueberry River decision"). The Blueberry River decision has potentially significant implications on regulatory and operational requirements for industrial development activities in northeast BC and could extend to other areas in Canada where similar claims may be made.

On October 7, 2021, BRFN and the Province of BC reached an initial agreement that is described by the Province as a first step in responding to the Blueberry River decision, which requires the Province and BRFN to work together to develop land management processes in BRFN territory. As part of this initial agreement, a number of forestry and oil and gas projects which were permitted or authorized prior to the Blueberry River decision and where activities had not started, including some held by Canfor, will be allowed to proceed. However, certain other previously approved

authorizations, which relate to areas of high cultural importance, will not proceed without further negotiation and agreement by the Province with BRFN, including some held by Canfor but which are not material to its current operations. Negotiations between the Province of BC and BRFN are now focused on establishing a process that assesses and manages the impacts of future industrial development activities, including new permits and authorizations, on BRFN's Treaty rights. The timing and outcome of these negotiations and their potential impacts on activities in the Treaty 8 area are not presently known.

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15, the William decision and the Blueberry River decision on the timber supply from Crown lands is unknown at this time. However, there is the potential for adverse timber supply and operational implications associated with the outcome of these ongoing negotiations and issues.

CPPI supports the work of tenure holders to engage, cooperate and exchange information and views with Indigenous Nations and Government to foster good relationships and minimize risks to the Company's operational plans.

## **Information Technology**

CPPI's information technology systems serve an important role in the operation of its business. CPPI relies on various technologies to access fibre, operate its production facilities, interact with customers, vendors and employees and to report on its business. Interruption, failure or unsuccessful implementation and integration of CPPI's information technology systems could result in material and adverse impacts on the Company's financial condition, operations, production, sales, and reputation and could also result in environmental and physical damage to Company operations or surrounding areas.

CPPI's information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject CPPI to civil penalties, litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition and operational results.

Although to date CPPI has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. CPPI's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized access remain a priority. CPPI, in conjunction with Canfor, has established a Management Cyber Risk Committee to assess and monitor risk mitigation efforts and to respond to emerging threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

## **Labour Agreements and Competition for Professional Skilled Labour**

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. Any inability to negotiate acceptable contracts with the Unifor and PPWC unions as they expire could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers. The Company negotiated its collective agreements with Unifor and PPWC at its PG operations in 2017; both labour agreements expired on April 30, 2021. A new four-year agreement was ratified in February 2022 and will expire on April 30, 2025.

## **Maintenance Obligations and Facility Disruptions**

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products. The Company could experience a breakdown in any of its machines, or other important equipment, and from time to time, the Company schedules planned and incurs unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Company's business, financial condition and operating results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there can be no guarantees that these arrangements will fully protect the Company against such losses.

## **Raw Material Costs**

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreements with Canfor contain pricing formulas that results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The impact of the MPB infestation in the region continues to impact overall fibre supply for the BC Interior sawmills. The Allowable Annual Cut ("AAC") has been reduced in many areas, but in several cases, the AAC has not yet been apportioned by Government, resulting in a log supply and demand imbalance. In 2021, the Prince George Timber Supply Area ("PGTSA") was directly impacted, with further reductions to the AAC of the PGTSA anticipated in 2023. This has the potential to significantly reduce the availability of residual chips that the Company currently consumes from regional sawmills, and an increased reliance on higher-cost whole log chips will be required. A lower AAC in the region may also reduce the availability of pulpwood for whole log chips. Residual chip pricing also depends on current sawmills running at current levels. If the residual chip supply is reduced as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, it is expected that the market price for wood chips will increase. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs.

## **Transportation Services**

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third-party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations, suffer labour-related disruptions, or cease doing business with the Company, the Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors and severe weather, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results. As a result of increased government regulation on truck driver work hours, rail capacity constraints, and significant weather events including wildfires and flooding in the BC region in the current year, access to adequate transportation capacity has at times been strained and could affect the Company's ability to move its wood chips, pulp and paper at competitive market prices.

## **OUTSTANDING SHARE DATA**

At March 1, 2022 there were 65,233,559 common shares issued and outstanding.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2021 and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR") and confirm that there were no changes in the Company's ICFR during the year ended December 31, 2021 that materially affected, or would be reasonably likely to materially affect, such controls. Based upon their evaluation of these controls for the year ended December 31, 2021, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2021 Annual Information Form, is available at <a href="http://www.sedar.com">www.sedar.com</a> or at <a href="http://www.canfor.com">www.canfor.com</a> .
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# CONSOLIDATED FINANCIAL STATEMENTS

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## **MANAGEMENT'S RESPONSIBILITY**

The information and representations in these consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors. The consolidated financial statements were prepared by Management in accordance with International Financial Reporting Standards and, where necessary, reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ.

Canfor Pulp Products Inc. maintains systems of internal controls over financial reporting, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the Company. The Audit Committee meets periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal controls over financial reporting, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

March 1, 2022



Donald B. Kayne  
Chief Executive Officer



Patrick A. J. Elliott  
Chief Financial Officer and Senior Vice President, Sustainability

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Pulp Products Inc.

### ***Opinion***

We have audited the consolidated financial statements of Canfor Pulp Products Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) for the years then ended
- the consolidated statements of other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### **Assessment of the recoverable amount of the pulp and paper segments**

#### **Description of the matter**

We draw attention to Notes 3, 5 and 14 to the financial statements. The Entity identified indicators of impairment for its pulp and paper segments' property, plant and equipment and performed an impairment test to estimate their recoverable amounts. The Entity has recorded an impairment loss of \$95.0 million related to its pulp segment for the year ended December 31, 2021. The recoverable amounts of the pulp and paper segments are determined based on an assessment of value in use. Significant assumptions used in determining value in use include future production volumes, commodity prices, fibre and production costs and the discount rate.

#### **Why the matter is a key audit matter**

We identified the assessment of the recoverable amounts of the pulp and paper segments as a key audit matter. The value in use was sensitive to changes in certain significant assumptions. Significant auditor judgment was required to evaluate the results of our audit procedures. Further, specialized skills and knowledge were required in evaluating the discount rate.

#### **How the matter was addressed in the audit**

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the appropriateness of forecasted production volumes and forecasted fibre and production costs of the Entity by comparing to actual historical production volumes and fibre and production costs. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.
- We compared forecasted commodity prices to third party industry pricing publications and to the Entity's historical realized pulp and paper prices over the past five years.
- We involved a valuation professional with specialized skills and knowledge, who assisted in evaluating the discount rate used in the estimated value in use by comparing to a discount range that was independently developed using publicly available market data for comparable entities.

### **Evaluation of the measurement of accrued benefit obligations**

#### **Description of the matter**

We draw attention to Notes 3 and 10 to the financial statements. The Entity has recorded net retirement benefit obligations of \$60.6 million which consists of accrued benefit obligations of \$210.5 million, offset by the fair market value of plan assets of \$149.9 million. The accrued benefit obligations are based on actuarial

determinations. In determining the estimated future costs, the Entity's significant assumptions include discount rates, mortality assumptions and health care cost trend rates.

***Why the matter is a key audit matter***

We identified the evaluation of the measurement of the accrued benefit obligations as a key audit matter given the magnitude of the accrued benefit obligations and the reliance on actuarial assumptions. In addition, significant auditor judgment was required in evaluating the results of our audit procedures due to the sensitivity of the accrued benefit obligations to minor changes in significant assumptions.

***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

- We assessed the professional competence, experience and objectivity of the actuarial specialists engaged by the Entity to estimate the accrued benefit obligations using actuarial methods and assumptions including mortality and health care cost trend rates.
- On a select basis, we compared data provided by the Entity to the actuarial specialists to underlying source records.
- We evaluated the appropriateness of discount rate assumptions by assessing changes in the discount rates from the prior year against changes in published rates as compiled by our actuarial specialists.

***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Canfor Pulp Products Inc. Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Canfor Pulp Products Inc. Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

## ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance for the financial statements with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The logo for KPMG LLP, featuring the letters 'KPMG' in a stylized, handwritten font, followed by 'LLP' in a smaller, similar font. A horizontal line is drawn underneath the text.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada  
March 1, 2022

## Canfor Pulp Products Inc. Consolidated Balance Sheets

(millions of Canadian dollars)	<b>As at December 31, 2021</b>	As at December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 73.3	\$ 6.8
Accounts receivable - Trade	66.7	64.3
- Other	9.5	13.6
Income taxes receivable	-	26.0
Inventories (Note 4)	211.8	188.5
Prepaid expenses and other	10.8	18.6
<b>Total current assets</b>	<b>372.1</b>	317.8
<b>Property, plant and equipment and intangible assets</b> (Note 5)	<b>464.8</b>	594.5
<b>Right-of-use assets</b> (Note 6(a))	<b>2.1</b>	2.0
<b>Other long-term assets</b>	<b>2.7</b>	6.5
<b>Total assets</b>	<b>\$ 841.7</b>	\$ 920.8
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 147.0	\$ 161.6
Income taxes payable	3.1	-
Current portion of lease obligations (Note 6(b))	0.8	1.0
<b>Total current liabilities</b>	<b>150.9</b>	162.6
<b>Term debt</b> (Note 9)	<b>50.0</b>	50.0
<b>Retirement benefit obligations</b> (Note 10)	<b>62.9</b>	70.4
<b>Lease obligations</b> (Note 6(b))	<b>2.1</b>	1.5
<b>Other long-term provisions</b> (Note 11)	<b>7.0</b>	8.7
<b>Deferred income taxes, net</b> (Note 16)	<b>73.8</b>	95.1
<b>Total liabilities</b>	<b>\$ 346.7</b>	\$ 388.3
<b>EQUITY</b>		
Share capital (Note 12)	\$ 480.8	\$ 480.8
Retained earnings	14.2	51.7
<b>Total equity</b>	<b>\$ 495.0</b>	\$ 532.5
<b>Total liabilities and equity</b>	<b>\$ 841.7</b>	\$ 920.8

### Commitments and Contingencies (Note 20)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"The Hon. J.R. Baird"

Director, The Hon. J.R. Baird

**Canfor Pulp Products Inc.**  
**Consolidated Statements of Income (Loss)**

(millions of Canadian dollars, except per share data)	Years ended December 31,	
	<b>2021</b>	2020
<b>Sales</b>	<b>\$ 1,144.9</b>	\$ 990.5
<b>Costs and expenses</b>		
Manufacturing and product costs	<b>862.1</b>	804.5
Freight and other distribution costs	<b>137.7</b>	136.2
Amortization	<b>87.3</b>	82.2
Selling and administration costs	<b>28.3</b>	23.7
Asset impairment (Note 14)	<b>95.0</b>	-
	<b>1,210.4</b>	1,046.6
<b>Operating loss</b>	<b>(65.5)</b>	(56.1)
Finance expense, net (Note 13)	<b>(5.0)</b>	(5.2)
Other income, net (Note 15)	<b>9.5</b>	30.7
Net loss before income taxes	<b>(61.0)</b>	(30.6)
Income tax recovery (Note 16)	<b>16.6</b>	8.2
<b>Net loss</b>	<b>\$ (44.4)</b>	\$ (22.4)
<b>Net loss per common share:</b> (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 12)	<b>\$ (0.68)</b>	\$ (0.34)

The accompanying notes are an integral part of these consolidated financial statements.

**Canfor Pulp Products Inc.**  
**Consolidated Statements of Other Comprehensive Income**

(millions of Canadian dollars)	Years ended December 31,	
	<b>2021</b>	2020
<b>Net loss</b>	<b>\$ (44.4)</b>	\$ (22.4)
<b>Other comprehensive income</b>		
Items that will not be reclassified subsequently to net loss:		
Defined benefit plan actuarial gains, net (Note 10)	<b>9.4</b>	1.0
Income tax expense on defined benefit plan actuarial gains, net (Note 16)	<b>(2.5)</b>	(0.3)
Other comprehensive income, net of tax	<b>6.9</b>	0.7
<b>Total comprehensive loss</b>	<b>\$ (37.5)</b>	\$ (21.7)

**Consolidated Statements of Changes in Equity**

(millions of Canadian dollars)	Years ended December 31,	
	<b>2021</b>	2020
<b>Share capital</b>		
Balance at beginning and end of year	<b>\$ 480.8</b>	\$ 480.8
<b>Retained earnings</b>		
Balance at beginning of year	<b>\$ 51.7</b>	\$ 77.5
Net loss	<b>(44.4)</b>	(22.4)
Defined benefit plan actuarial gains, net of tax	<b>6.9</b>	0.7
Dividends declared	<b>-</b>	(4.1)
Balance at end of year	<b>\$ 14.2</b>	\$ 51.7
<b>Total equity</b>	<b>\$ 495.0</b>	\$ 532.5

The accompanying notes are an integral part of these consolidated financial statements.

**Canfor Pulp Products Inc.**  
**Consolidated Statements of Cash Flows**

(millions of Canadian dollars)	Years ended December 31,	
	<b>2021</b>	2020
<b>Cash generated from (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (44.4)	\$ (22.4)
Items not affecting cash:		
Amortization	87.3	82.2
Income tax recovery	(16.6)	(8.2)
Employee future benefits expense	3.6	4.0
Finance expense, net	5.0	5.2
Asset impairment (Note 14)	95.0	-
Other, net	0.4	(2.3)
Defined benefit plan contributions, net	(3.5)	(3.3)
Income taxes received, net	26.0	29.0
	<b>152.8</b>	84.2
Net change in non-cash working capital (Note 17)	<b>(3.9)</b>	11.8
	<b>148.9</b>	96.0
<b>Financing activities</b>		
Payments of lease obligations (Note 6(b))	(1.1)	(0.9)
Operating loan repayment	-	(14.0)
Finance expenses paid	(3.2)	(3.4)
Dividends paid	-	(4.1)
	<b>(4.3)</b>	(22.4)
<b>Investing activities</b>		
Additions to property, plant and equipment and intangible assets, net (Note 5)	(78.7)	(73.3)
Other, net	0.6	0.5
	<b>(78.1)</b>	(72.8)
<b>Increase in cash and cash equivalents*</b>	<b>66.5</b>	0.8
Cash and cash equivalents at beginning of year*	6.8	6.0
<b>Cash and cash equivalents at end of year*</b>	<b>\$ 73.3</b>	\$ 6.8

\*Cash and cash equivalents include cash on hand less unrepresented cheques.

The accompanying notes are an integral part of these consolidated financial statements.



## **Canfor Pulp Products Inc. Notes to the Consolidated Financial Statements**

Years ended December 31, 2021 and December 31, 2020  
(millions of Canadian dollars unless otherwise noted)

### **1. Reporting Entity**

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise the Company and its subsidiaries (hereinafter referred to as "CPPI" or "the Company"). The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia, a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2021, and March 1, 2022, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2020.

### **2. Basis of Preparation**

#### ***Statement of compliance***

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2022.

#### ***Basis of measurement***

The consolidated financial statements have been prepared on a historical cost basis, except for certain items as discussed in the applicable accounting policies under Note 3.

#### ***Use of estimates and judgments***

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from Management's estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 4 – Inventories;
- Note 5 – Property, Plant and Equipment and Intangible Assets;
- Note 6 – Leases;
- Note 10 – Employee Future Benefits;
- Note 11 – Asset Retirement Obligations;
- Note 14 – Asset Impairment; and
- Note 16 – Income Taxes.

### **3. Significant Accounting Policies**

The following accounting policies have been applied to the financial information presented.

#### ***Basis of consolidation***

Subsidiaries are entities controlled by the Company. Control exists when CPPI is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

For joint operations, the Company recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements.

### ***Cash and cash equivalents***

Cash and cash equivalents include cash in bank accounts and liquid money market instruments that are readily convertible into known amounts of cash within three months or less from the date of acquisition, and are valued at amortized cost, which approximates market value. Cash is presented net of unrepresented cheques. When the amount of unrepresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on the amount, credit quality and term of the Company's deposits.

### ***Financial instruments***

Financial instruments comprise cash and cash equivalents, trade and other accounts receivable, accounts payable and accrued liabilities, as well as the Company's operating loan and term debt. From time to time, CPPI uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, commodity price, and energy price risks. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. When applicable, CPPI's derivative financial instruments are not designated as hedges for accounting purposes.

CPPI's financial instruments are classified and measured as follows:

Financial Assets:	
Cash and cash equivalents	Amortized cost
Trade and other accounts receivable	Amortized cost
Financial Liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Term debt	Amortized cost

### ***Classification and measurement of financial assets***

Financial assets are classified as either measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through net income ("FVTPL") based on the business model in which a financial asset is managed, its contractual cash flow characteristics and when certain conditions are met:

- Amortized cost – measured at amortized cost using the effective interest rate method. Where applicable, amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognized in net income.
- FVOCI – measured at FVOCI if not designated as FVTPL. Interest income, foreign exchange gains and losses and impairments are recognized in net income. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to net income.
- FVTPL – measured at FVTPL if not classified as amortized cost or FVOCI with net gains and losses, including any interest or dividend income, recognized in net income.

Equity investments are required to be classified as measured at fair value. However, on initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investments fair value in other comprehensive income. This election is made on an investment-by-investment basis. The Company does not currently hold any equity investments.

### ***Classification and measurement of financial liabilities***

Financial liabilities are classified as either measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is held-for-trading, a derivative, or if it is designated such on initial recognition. Financial liabilities at FVTPL are measured at fair value with net gains and losses, including interest expense, recognized in net income. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in net income. Any gains or losses on derecognition are also recognized in net income.

### ***Impairment***

The Company applies the simplified approach in determining expected credit losses ("ECLs"), which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial

assets measured at amortized cost and contract assets. Any credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Any loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

### ***Inventories***

Inventories include pulp, paper, wood chips, logs, and materials and supplies. These are measured at the lower of cost and net realizable value, and are presented net of applicable write-downs. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The Company estimates the net realizable value of finished goods inventories based on actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using Management's estimates at the end of the period and may differ from the actual prices at which the inventories are sold.

### ***Leases***

#### *Lease definition*

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An identified asset may be implicitly or explicitly specified in a contract, but must be physically distinct, and must not have the ability for substitution by a lessor. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines or directs how and for what purpose the asset is used.

#### *Measurement of right-of-use assets and lease obligations*

At lease commencement, the Company recognizes a right-of-use asset ("ROU asset") and a lease obligation. The ROU asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease, or the useful life of the assets determined on the same basis as the Company's property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

The lease obligation is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

#### *Recognition exemptions*

The Company has elected not to recognize ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognized as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated statement of income.

### ***Property, plant and equipment***

Items of property, plant and equipment, including expenditure on major overhauls, are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly

attributable to bringing assets to the location and condition necessary for it to be used in the manner intended by Management.

Expenditure on major overhauls, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if the future economic benefits embodied within the component part will flow to CPPI and its cost can be measured reliably. The carrying amount of the replaced component is removed.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The majority of CPPI's amortization expense for property, plant and equipment is recognized in manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to CPPI's capital assets:

Buildings, roads and paving	10 to 40 years
Pulp and paper machinery and equipment	8 to 20 years
Mobile equipment	4 years
Office furniture and equipment	10 years
Major overhauls	1 to 5 years

### ***Intangible assets***

#### *Computer software*

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods ranging from five to ten years.

### ***Government assistance***

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

### ***Asset impairment***

CPPI's property, plant and equipment, ROU assets and intangible assets are assessed at each reporting date to determine whether there are any indications of impairment, and an impairment test is performed whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit).

Non-financial assets, for which impairment was recorded in a prior period, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

## ***Employee future benefits***

### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee future benefits expense when they are earned.

For hourly employees covered by forest industry union defined contribution or benefit plans, the consolidated statement of income is charged with CPPI's contributions required under the collective agreements.

### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. CPPI, in participation with Canfor, has defined benefit plans that provide both pension and other non-pension post-retirement benefits to certain salaried employees, and certain hourly employees not covered by forest industry union plans. The other non-pension post-retirement benefits include certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and/or obligation recognized in the consolidated balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations. The accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by CPPI. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of CPPI's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions or legislated amounts payable. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income in the period in which they occur.

## ***Provisions***

CPPI recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance expense. The main class of provision recognized by CPPI is as follows:

### *Asset retirement obligations*

CPPI recognizes liabilities for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

## ***Revenue recognition***

CPPI's revenues are derived from the sale of pulp, paper and energy. Revenue is measured based on the consideration specified in a contract with a customer, net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue for pulp and paper is recognized when control of products is transferred to customers. Energy revenue is recognized at month-end based on energy produced and transferred to the customer under the terms and conditions of electricity purchase and load displacement agreements.

The timing of transfer of control to customers varies depending on the individual terms of the contract of sale, but is typically at the time pulp and paper is loaded onto a truck or rail carrier, upon vessel departure, upon delivery, as the goods are used by the customer, or when pulp and paper has been picked up by the buyer at a designated transfer

point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for commissions, volume rebates and discounts at the point in time control is transferred.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by CPPI are reported as a component of freight and other distribution costs.

### ***Income taxes***

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

CPPI recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's consolidated balance sheet, depending upon when the benefit is expected to be received.

### ***Foreign currency translation***

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of CPPI's sales are denominated in foreign currencies, principally the US-dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences arising from translation of foreign operations are recognized in other comprehensive income.

### ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets.

### ***Change in significant accounting policy***

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments* ("IFRS 9"), IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its committed operating loan facility and its non-revolving term debt, both of which have yet to transition to an alternative benchmark interest rate at December 31, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

#### 4. Inventories

(millions of Canadian dollars)	<b>As at December 31, 2021</b>	As at December 31, 2020
Pulp	\$ 75.2	\$ 55.4
Paper	22.5	20.9
Wood chips and logs	55.6	57.2
Materials and supplies	58.5	55.0
	<b>\$ 211.8</b>	<b>\$ 188.5</b>

The above inventory balances are stated at the lower of cost and net realizable value. For the year ended December 31, 2021, a \$2.4 million inventory net write-down expense was recognized (2020 – \$8.5 million net write-down recovery), resulting in an inventory provision for finished pulp and raw materials of \$4.6 million at December 31, 2021 (December 31, 2020 – provision of \$2.2 million).

Inventory expensed in 2021 and 2020 is included in 'Manufacturing and product costs' and 'Amortization' on the consolidated statement of income (loss).

#### 5. Property, Plant and Equipment and Intangible Assets

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Other property, plant and equipment <sup>2</sup>	Construction in progress	Intangible assets	Total property, plant and equipment and intangible assets
<b>Cost</b>						
Balance at January 1, 2020	\$ 5.4	\$ 1,662.9	\$ 62.9	\$ 47.0	\$ 34.2	\$ 1,812.4
Additions <sup>1</sup>	0.1	-	2.1	92.7	0.5	95.4
Disposals	-	(4.6)	(19.2)	-	-	(23.8)
Transfers	-	71.8	32.2	(104.0)	-	-
Balance at December 31, 2020	\$ 5.5	\$ 1,730.1	\$ 78.0	\$ 35.7	\$ 34.7	\$ 1,884.0
Additions <sup>1</sup>	-	-	-	51.8	2.0	53.8
Disposals	-	(7.1)	(19.3)	-	-	(26.4)
Transfers	-	21.1	53.4	(74.5)	-	-
Balance at December 31, 2021	\$ 5.5	\$ 1,744.1	\$ 112.1	\$ 13.0	\$ 36.7	\$ 1,911.4
<b>Amortization and Impairment</b>						
Balance at January 1, 2020	\$ -	\$ (1,194.1)	\$ (29.2)	\$ -	\$ (8.3)	\$ (1,231.6)
Amortization for the year	-	(55.3)	(20.0)	-	(5.9)	(81.2)
Disposals	-	4.1	19.2	-	-	23.3
Balance at December 31, 2020	\$ -	\$ (1,245.3)	\$ (30.0)	\$ -	\$ (14.2)	\$ (1,289.5)
Amortization for the year	-	(52.9)	(27.2)	-	(5.9)	(86.0)
Asset impairment (Note 14)	-	(95.0)	-	-	-	(95.0)
Disposals	-	5.2	18.7	-	-	23.9
Balance at December 31, 2021	\$ -	\$ (1,388.0)	\$ (38.5)	\$ -	\$ (20.1)	\$ (1,446.6)
<b>Carrying Amounts</b>						
At January 1, 2020	\$ 5.4	\$ 468.8	\$ 33.7	\$ 47.0	\$ 25.9	\$ 580.8
At December 31, 2020	\$ 5.5	\$ 484.8	\$ 48.0	\$ 35.7	\$ 20.5	\$ 594.5
<b>At December 31, 2021</b>	<b>\$ 5.5</b>	<b>\$ 356.1</b>	<b>\$ 73.6</b>	<b>\$ 13.0</b>	<b>\$ 16.6</b>	<b>\$ 464.8</b>

<sup>1</sup> Net of capital expenditures financed by government grants.

<sup>2</sup> Other property, plant and equipment is comprised of major overhauls and capitalized landfill retirement costs.

## 6. Leases

### (a) Right-of-Use Assets

(millions of Canadian dollars)		Land	Machinery and equipment	Other facilities and equipment	Total
<b>Cost</b>					
Balance at January 1, 2020	\$	0.1	\$ 5.8	\$ 1.6	\$ 7.5
Additions		-	0.2	0.3	0.5
Balance at December 31, 2020	\$	0.1	\$ 6.0	\$ 1.9	\$ 8.0
Additions		-	0.3	1.1	1.4
Disposals		-	(0.1)	(0.1)	(0.2)
Balance at December 31, 2021	\$	0.1	\$ 6.2	\$ 2.9	\$ 9.2
<b>Amortization</b>					
Balance at January 1, 2020	\$	-	\$ (3.6)	\$ (1.4)	\$ (5.0)
Amortization for the year		-	(0.7)	(0.3)	(1.0)
Balance at December 31, 2020	\$	-	\$ (4.3)	\$ (1.7)	\$ (6.0)
Amortization for the year		-	(0.9)	(0.4)	(1.3)
Disposals		-	-	0.1	0.1
Effects of movements in exchange rates		-	-	0.1	0.1
Balance at December 31, 2021	\$	-	\$ (5.2)	\$ (1.9)	\$ (7.1)
<b>Carrying Amounts</b>					
At January 1, 2020	\$	0.1	\$ 2.2	\$ 0.2	\$ 2.5
At December 31, 2020	\$	0.1	\$ 1.7	\$ 0.2	\$ 2.0
<b>At December 31, 2021</b>	<b>\$</b>	<b>0.1</b>	<b>\$ 1.0</b>	<b>\$ 1.0</b>	<b>\$ 2.1</b>

### (b) Lease Obligations

Contractual undiscounted cash flows associated with the Company's lease obligations are as follows:

(millions of Canadian dollars)		<b>As at December 31, 2021</b>		As at December 31, 2020
Within one year	\$	<b>0.9</b>	\$	1.1
Between one and five years		<b>1.2</b>		1.3
Beyond five years		<b>0.8</b>		0.2
Total undiscounted lease obligations	\$	<b>2.9</b>	\$	2.6

Interest expense on lease obligations for 2021 was \$0.1 million (2020 – \$0.1 million) and is included in 'Finance expense, net' on the consolidated statement of income (loss).

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for 2021 were \$1.2 million (2020 – \$0.6 million).

Total cash outflows for leases in 2021 were \$2.3 million, including \$1.2 million for short-term and low-value leases, as well as variable lease expenses (2020 – \$1.5 million and \$0.6 million, respectively).

## 7. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)		<b>As at December 31, 2021</b>		As at December 31, 2020
Trade payables and accrued liabilities	\$	<b>103.4</b>	\$	122.9
Accrued payroll and related liabilities		<b>43.6</b>		38.7
	\$	<b>147.0</b>	\$	161.6



## 8. Operating Loan

(millions of Canadian dollars)	<b>As at December 31, 2021</b>	As at December 31, 2020
Operating loan facility	\$ 110.0	\$ 110.0
Letters of credit	<b>(12.9)</b>	(12.9)
Total available operating loan facility	<b>\$ 97.1</b>	\$ 97.1

On December 15, 2021, the Company extended the maturity date of its committed operating loan facility from April 6, 2023 to December 15, 2025.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. As at December 31, 2021, the Company was fully in compliance with all covenants relating to its operating loan facility.

## 9. Term Debt

On December 15, 2021, the Company extended the maturity date of its \$50.0 million non-revolving term debt from September 30, 2022 to December 15, 2024.

Interest on the Company's term debt is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

The term loan covenants are consistent with the Company's existing operating loan facility. As at December 31, 2021, the Company was fully in compliance with all covenants relating to its term debt.

### ***Fair value of total term debt***

At December 31, 2021, the fair value of the Company's term debt approximates its amortized cost of \$50.0 million (December 31, 2020 – \$50.0 million).

## 10. Employee Future Benefits

The Company, in participation with Canfor, has several funded and unfunded defined benefit pension plans, defined contribution plans, and other non-pension post-retirement benefit plans that provide benefits to substantially all salaried employees and certain hourly employees. The defined benefit pension plans are based on years of service and final average salary. CPPI's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for 2021 were \$14.3 million (December 31, 2020 – \$13.8 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

### ***Defined benefit plans***

CPPI measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2021, CPPI has one registered defined benefit pension plan for which an actuarial funding valuation is performed at least every three years. This registered pension plan underwent an actuarial valuation for funding purposes as at December 31, 2020, which was completed in 2021. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2023, to be completed in 2024. The remaining non-registered pension plans also underwent actuarial valuations as at December 31, 2020, which were completed in 2021. In addition, CPPI has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The actuarial valuations for the non-pension post-retirement benefit plans were conducted as at December 31, 2021.

Information about CPPI's defined benefit plans, in aggregate, is as follows:

<b>Fair market value of plan assets</b>	<b>2021</b>		<b>2020</b>	
	<b>Defined Benefit Pension Plans</b>	<b>Other Benefit Plans</b>	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 148.9	\$ -	\$ 143.3	\$ -
Interest income on plan assets	3.9	-	4.3	-
Return on plan assets greater (less) than discount rate	(0.7)	-	3.2	-
Employer contributions	2.4	1.1	2.4	0.9
Employee contributions	0.1	-	0.1	-
Benefit payments	(4.6)	(1.1)	(4.3)	(0.9)
Administration costs	(0.1)	-	(0.1)	-
End of year	\$ 149.9	\$ -	\$ 148.9	\$ -

Plan assets consist of the following:	<b>As at December 31, 2021</b>	As at December 31, 2020
	<b>2021</b>	2020
Asset category		Percentage of Plan Assets
Equity securities	<b>30%</b>	28%
Debt securities	<b>19%</b>	17%
Annuities	<b>51%</b>	55%
	<b>100%</b>	100%

<b>Accrued benefit obligations</b>	<b>2021</b>		<b>2020</b>	
	<b>Defined Benefit Pension Plans</b>	<b>Other Benefit Plans</b>	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 181.1	\$ 35.9	\$ 174.3	\$ 35.5
Current service cost	2.7	0.7	2.8	0.8
Interest cost	4.8	0.9	5.2	1.0
Employee contributions	0.1	-	0.1	-
Benefit payments	(4.6)	(1.1)	(4.3)	(0.9)
Actuarial loss (gain)	(8.7)	(1.4)	3.0	(0.8)
Other	-	0.1	-	0.3
End of year	\$ 175.4	\$ 35.1	\$ 181.1	\$ 35.9

Of the defined benefit pension plan obligation of \$175.4 million (December 31, 2020 – \$181.1 million), \$160.8 million (December 31, 2020 – \$164.0 million) relates to plans that are wholly or partly funded and \$14.6 million (December 31, 2020 – \$17.1 million) relates to plans that are wholly unfunded, with letters of credit securing \$6.0 million (December 31, 2020 – \$6.0 million) of the unfunded liability. The total obligation for the non-pension post-retirement benefit plans of \$35.1 million (December 31, 2020 – \$35.9 million) is unfunded.

### **Annuity contracts**

In 2020 and 2021, no buy-in annuities were purchased by the Company. As at December 31, 2021, the plan holds \$76.1 million of buy-in annuities purchased prior to 2019. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

### **Reconciliation of funded status of defined benefit plans to amounts recorded in the consolidated financial statements**

	<b>2021</b>		<b>2020</b>	
	<b>Defined Benefit Pension Plans</b>	<b>Other Benefit Plans</b>	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Fair market value of plan assets	\$ 149.9	\$ -	\$ 148.9	\$ -
Accrued benefit obligations	(175.4)	(35.1)	(181.1)	(35.9)
Funded status of plans – deficit	(25.5)	(35.1)	(32.2)	(35.9)
Other pension plans	(2.3)	-	(2.3)	-
Total accrued benefit liability, net	\$ (27.8)	\$ (35.1)	\$ (34.5)	\$ (35.9)

## Components of pension cost

The following table shows the before tax impact on net income (loss) and other comprehensive income of the Company's defined benefit pension and other non-pension post-retirement benefit plans:

(millions of Canadian dollars)	2021		2020	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
<b>Recognized in net income (loss)</b>				
Current service cost	\$ 2.7	\$ 0.7	\$ 2.8	\$ 0.8
Administration cost	0.1	-	0.1	-
Interest cost, net	0.9	0.9	0.9	1.0
Other	-	0.1	-	0.3
<b>Total expense included in net income (loss)</b>	<b>\$ 3.7</b>	<b>\$ 1.7</b>	<b>\$ 3.8</b>	<b>\$ 2.1</b>

(millions of Canadian dollars)	2021		2020	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
<b>Recognized in other comprehensive income</b>				
Actuarial loss (gain) – experience	\$ (1.6)	\$ -	\$ (3.6)	\$ 0.5
Actuarial gain – demographic assumptions	-	-	-	(0.3)
Actuarial loss (gain) – financial assumptions	(7.1)	(1.4)	6.6	(1.0)
Return on plan assets less (greater) than discount rate	0.7	-	(3.2)	-
<b>Total gain in other comprehensive income</b>	<b>\$ (8.0)</b>	<b>\$ (1.4)</b>	<b>\$ (0.2)</b>	<b>\$ (0.8)</b>

## Significant assumptions

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	December 31, 2021		December 31, 2020	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	3.0%	3.0%	2.7%	2.7%
Rate of compensation increases	3.0%	n/a	3.0%	n/a
Initial medical cost trend rate	n/a	5.0%	n/a	5.0%
Ultimate medical cost trend rate	n/a	4.5%	n/a	4.5%
Year ultimate rate is reached	n/a	2025	n/a	2025

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2021 is between 21.3 years and 24.3 years (December 31, 2020 – 21.2 years and 24.3 years). As at December 31, 2021, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.8 years (December 31, 2020 – 13.4 years). The weighted average duration of the other benefit plans is 12.1 years (December 31, 2020 – 13.0 years).

## Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation, including the impact of plan annuity assets, for 2021:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	\$ (12.1)	\$ 15.0
Other benefit plan liabilities		
Discount rate	\$ (4.6)	\$ 5.5
Initial medical cost trend rate	\$ 1.7	\$ (1.9)

When taking into account the impact of annuities, 43% (December 31, 2020 – 45%) of the change to the defined benefit pension plans is fully offset against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 25% (December 31, 2020 – 23%) is partially hedged through the plan's investment in debt securities.

As at December 31, 2021, estimated contribution payments of \$2.4 million will be made to the Company's defined benefit pension plans in 2022 based on the last actuarial valuation for funding purposes.

### ***Defined contribution and other plans***

The total expense recognized in 2021 for CPPI's defined contribution plans was \$3.0 million (December 31, 2020 – \$2.8 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as a defined contribution plan. Contributions to this plan, not included in the expense for the defined contribution plan above, amounted to \$7.8 million in 2021 (December 31, 2020 – \$7.7 million).

## **11. Asset Retirement Obligations**

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2021 and December 31, 2020:

(millions of Canadian dollars)	<b>2021</b>		2020	
Asset retirement obligations at beginning of year	\$	<b>8.7</b>	\$	6.6
Accretion expense		<b>0.1</b>		0.1
Changes in estimates		<b>(0.7)</b>		2.0
Asset retirement obligation at end of year	\$	<b>8.1</b>	\$	8.7
Less: Current portion		<b>(1.4)</b>		-
Long-term portion	\$	<b>6.7</b>	\$	8.7

CPPI's asset retirement obligations represent estimated undiscounted future payments of \$10.8 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 1 to 30 years and have been discounted at risk-free rates ranging from 0.6% to 1.7% (December 31, 2020 – 0.2% to 1.2%).

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in 'Accounts payable and accrued liabilities' and 'Other long-term provisions' on the consolidated balance sheet.

## **12. Share Capital**

### ***Authorized***

Unlimited number of common shares, no par value.

### ***Issued and fully paid***

(millions of Canadian dollars, except number of shares)	<b>2021</b>		2020	
	<b>Number of Shares</b>	<b>Amount</b>	Number of Shares	Amount
Common shares at beginning and end of year	<b>65,233,559</b>	\$ <b>480.8</b>	65,233,559	\$ 480.8

The holders of common shares are entitled to vote at all meetings of shareholders of the Company and are entitled to receive dividends when declared. Dividends were suspended for the foreseeable future in the first quarter of 2020 due to challenging market conditions.

Basic net income (loss) per common share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2021 is 65,233,559 (December 31, 2020 – 65,233,559), and reflects common shares purchased under the Company's normal course issuer bid.

### **Normal course issuer bid**

On March 6, 2020, the Company's normal course issuer bid expired and was not renewed.

As at December 31, 2021 and March 1, 2022, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8% (December 31, 2020 – 54.8%).

### **13. Finance Expense, Net**

(millions of Canadian dollars)	<b>2021</b>	2020
Interest expense on borrowings	\$ (3.0)	\$ (3.4)
Interest expense on retirement benefit obligations, net	(1.8)	(1.9)
Interest income	0.1	0.3
Other finance expenses	(0.3)	(0.2)
Finance expense, net	\$ (5.0)	\$ (5.2)

### **14. Asset Impairment**

As a result of increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as of December 31, 2021 on the property, plant and equipment of the pulp and paper cash-generating unit ("CGU").

The recoverable amount of the Company's property, plant and equipment within the pulp and paper CGU was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp and paper industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 8% (11% before tax), based on CPPI's weighted average cost of capital for 2021.

This assessment resulted in an impairment charge of \$95.0 million being recognized for the year ended December 31, 2021, as a reduction to the carrying value of pulp segment assets.

### **15. Other Income, Net**

During 2021, the Company received insurance proceeds of \$8.8 million (2020 – \$32.8 million) related to Northwood pulp mill's number five recovery boiler ("RB5") outage in 2018, included as a component of 'Other income, net' on the consolidated statement of income (loss).

### **16. Income Taxes**

The components of income tax recovery are as follows:

(millions of Canadian dollars)	<b>2021</b>	2020
Current	\$ (7.3)	\$ 25.3
Deferred	23.9	(17.1)
Income tax recovery	\$ 16.6	\$ 8.2

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars)	<b>2021</b>	2020
Income tax recovery at statutory rate of 27% (2020 – 27.0%)	\$ 16.5	\$ 8.3
Add (deduct):		
Entities with different income tax rates and other tax adjustments	0.1	(0.1)
Income tax recovery	\$ 16.6	\$ 8.2

In addition, a tax expense of \$2.5 million related to actuarial gains, net, on the Company's defined benefit plans was recorded in other comprehensive income for the year ended December 31, 2021 (December 31, 2020 – expense of \$0.3 million).

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	<b>As at December 31, 2021</b>	As at December 31, 2020
Deferred income tax assets		
Retirement benefit obligations	\$ 16.4	\$ 18.4
Other	4.3	4.7
	<b>\$ 20.7</b>	<b>\$ 23.1</b>
Deferred income tax liabilities		
Depreciable capital assets	\$ (93.6)	\$ (117.4)
Other	(0.9)	(0.8)
	<b>(94.5)</b>	<b>(118.2)</b>
Total deferred income taxes, net	<b>\$ (73.8)</b>	<b>\$ (95.1)</b>

## 17. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	<b>2021</b>	2020
Accounts receivable	\$ 1.6	\$ 6.8
Inventories	(23.3)	5.2
Prepaid expenses and other	8.9	(1.4)
Accounts payable and accrued liabilities	8.9	1.2
Net change in non-cash working capital	<b>\$ (3.9)</b>	<b>\$ 11.8</b>

## 18. Related Party Transactions

CPPI undertakes transactions with various related entities. These transactions are in the normal course of business, except where noted otherwise.

In 2021, the Company depended on Canfor to provide approximately 60% (December 31, 2020 – 68%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of \$197.4 million in 2021 (December 31, 2020 – \$232.5 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total amount charged for the services provided by Canfor in 2021 was \$22.9 million (December 31, 2020 – \$18.4 million). This amount is included in 'Manufacturing and product costs' and 'Selling and administration costs.'

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2021 was \$3.8 million (December 31, 2020 – \$4.0 million). This amount is included as a cost recovery in 'Manufacturing and product costs' and 'Selling and administration costs.' At December 31, 2021, an outstanding balance of \$16.0 million (December 31, 2020 – \$16.7 million) was owed to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 51.2% at December 31, 2021 (December 31, 2020 – 50.9%). During 2021, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling \$1.7 million (December 31, 2020 – \$3.0 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling \$0.6 million (December 31, 2020 – \$0.7 million). At December 31, 2021, an outstanding balance of \$0.1 million (December 21, 2020 – no outstanding balance) was owed to subsidiaries owned by the Jim Pattison Group.

During 2021 and 2020, Canfor also made contributions to certain post-employment benefit plans for the benefit of CPPI employees (see Note 10, 'Employee Future Benefits,' for further details).

### **Key management personnel**

Key management includes members of the Board of Directors and the senior executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	<b>2021</b>		2020	
Short-term benefits	\$	<b>3.9</b>	\$	2.4
Post-employment benefits		<b>0.9</b>		0.8
	<b>\$</b>	<b>4.8</b>	<b>\$</b>	3.2

Short-term benefits for members of the Board of Directors include an annual retainer.

### **19. Segment Information**

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. The following summary describes the operations of each of the Company's reportable segments:

- *Pulp* – Includes purchase of residual fibre, and production and sale of pulp products, including NBSK pulp and BCTMP as well as energy revenues; and
- *Paper* – Includes production and sale of paper products, including bleached, unbleached and coloured paper.

Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

Information regarding the operations of each reportable segment is included in the following table. The accounting policies of the reportable segments are described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather, are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)	Pulp		Paper		Unallocated		Elimination Adjustment		Total	
<b>Year ended December 31, 2021</b>										
<b>Sales from contracts with customers</b>	\$	<b>984.7</b>	\$	<b>160.2</b>	\$	-	\$	-	\$	<b>1,144.9</b>
<b>Sales to other segments</b>		<b>102.2</b>		-		-		<b>(102.2)</b>		-
<b>Operating income (loss)</b>		<b>(55.8)</b>		<b>4.3</b>		<b>(14.0)</b>		-		<b>(65.5)</b>
<b>Amortization</b>		<b>84.7</b>		<b>2.5</b>		<b>0.1</b>		-		<b>87.3</b>
<b>Capital expenditures<sup>4</sup></b>		<b>76.3</b>		<b>0.4</b>		<b>2.0</b>		-		<b>78.7</b>
<b>Identifiable assets</b>		<b>696.9</b>		<b>56.1</b>		<b>88.7</b>		-		<b>841.7</b>
<b>Year ended December 31, 2020</b>										
Sales from contracts with customers	\$	827.9	\$	162.6	\$	-	\$	-	\$	990.5
Sales to other segments		74.4		-		-		(74.4)		-
Operating income (loss)		(70.4)		24.0		(9.7)		-		(56.1)
Amortization		79.2		2.9		0.1		-		82.2
Capital expenditures <sup>3</sup>		71.3		1.4		0.6		-		73.3
Identifiable assets		814.7		63.8		42.3		-		920.8

<sup>3</sup> Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants.

## Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. The following table presents sales based on geographical locations of CPPI's customers:

(millions of Canadian dollars)	2021		2020	
Sales by location of customer				
Canada	6%	\$ 73.4	8%	\$ 79.0
Asia	67%	762.5	60%	596.4
United States	20%	230.0	25%	246.0
Europe	4%	48.6	4%	37.6
Other	3%	30.4	3%	31.5
	100%	\$ 1,144.9	100%	\$ 990.5

In 2021, one customer in the pulp segment accounted for 16% of the Company's total sales (December 31, 2020 – 13%).

## 20. Commitments and Contingencies

At December 31, 2021, CPPI has contractual commitments for \$34.1 million (December 31, 2020 – \$44.5 million). The majority of these commitments are expected to be settled between one and three years. In addition, CPPI has committed to leases of property, plant and equipment as outlined under Note 6.

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others.

In circumstances where the Company is not able to determine the outcome of a legal action and claim, no amount is recognized in the consolidated financial statements, with an amount accrued only when a reliable estimate of the obligation can be made. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of Management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

### (a) Energy Agreements

The Company has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements included incentive funding from a BC energy company to support capital investments for a turbo generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2021 the Company had posted \$2.2 million of standby letters of credit (December 31, 2020 – \$2.2 million) under these agreements and had no repayment obligations under the terms of any of these agreements.

### (b) Canada Emergency Wage Subsidy

As a result of material revenue declines incurred by the Company in the first half of 2020 stemming from the coronavirus ("COVID-19") pandemic (see Note 21), the Company recognized a Canada Emergency Wage Subsidy ("CEWS") of \$12.9 million in 2020 as an offset to wage expense on the Company's consolidated statement of income (loss).

## 21. Risks and Uncertainties

### Financial risk management

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

CPPI's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of the Company.



*Credit risk:*

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2021 is \$73.3 million (December 31, 2020 – \$6.8 million).

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivable. As at December 31, 2021, approximately 89% (December 31, 2020 – 72%) of the outstanding trade accounts receivable are covered by credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivable and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade accounts receivable balance at December 31, 2021 is \$67.7 million, before a loss allowance of \$1.0 million (December 31, 2020 – \$65.3 million before a loss allowance of \$1.0 million). At December 31, 2021, approximately 100% (December 31, 2020 – 99%) of the trade accounts receivable balance is within CPPI's established credit terms.

*Liquidity risk:*

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash flow forecasting in conjunction with an adequate operating loan facility and term debt.

At December 31, 2021, CPPI had cash and cash equivalents of \$73.3 million (December 31, 2020 – \$6.8 million), with \$97.1 million (December 31, 2020 - \$97.1 million) available and undrawn on its operating loan facility. As a result, at December 31, 2021, the Company had available liquidity of \$170.4 million (December 31, 2020 - \$103.9 million), accounts payable and accrued liabilities of \$147.0 million (December 31, 2020 – \$161.6 million), and term debt of \$50.0 million (December 31, 2020 – \$50.0 million).

*Market risk:*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

*(i) Interest rate risk:*

CPPI is exposed to interest rate risk through its current financial assets, operating loan facility and term debt which bear variable interest rates. CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates.

*(ii) Currency risk:*

CPPI is exposed to foreign exchange risk primarily related to the US-dollar, as CPPI products are sold globally with prices primarily denominated in US-dollars or linked to prices quoted in US-dollars with certain expenditures transacted in US-dollars. In addition, the Company holds financial assets and liabilities in US-dollars. These primarily include US-dollar bank accounts and trade accounts.

An increase (decrease) in the value of the Canadian dollar by US\$0.01 would result in a pre-tax loss (gain) of approximately \$0.5 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

*(iii) Commodity price risk:*

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and energy prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity

additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 1% of pulp sales may be sold in this way. CPPI is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third party regulatory bodies.

*(iv) Energy price risk:*

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations. The annual exposure is, from time to time, hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months.

At December 31, 2021 and December 31, 2020, the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

**Capital management**

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business through the commodity price cycle.

CPPI's capital is comprised of net debt (cash) and shareholders' equity:

(millions of Canadian dollars)	<b>As at December 31, 2021</b>	As at December 31, 2020
Total debt (including operating loan)	\$ 50.0	\$ 50.0
Less: Cash and cash equivalents	(73.3)	(6.8)
Net debt (cash)	\$ (23.3)	\$ 43.2
Total equity	495.0	532.5
	<b>\$ 471.7</b>	<b>\$ 575.7</b>

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2021, to meet CPPI's operating, growth and return on invested capital objectives, the Company's management of capital was comprised primarily of investment in the Company's operations. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**Coronavirus Outbreak**

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. During the year ended December 31, 2021, there have been no significant adverse impacts of COVID-19 on the Company. However, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

**22. Financial Instruments**

CPPI's cash and cash equivalents, trade and other accounts receivable, operating loan, term debt and accounts payable and accrued liabilities are classified as measured at amortized cost in accordance with IFRS 9. The carrying amounts of these instruments, excluding term debt, approximate fair value at December 31, 2021.

When applicable, derivative instruments are classified as measured at FVTPL. IFRS 13, *Fair Value Measurement*, requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

At times, the Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs and interest rates. As at December 31, 2021 and December 31, 2020, the Company had no derivative financial instruments outstanding.

## ADDITIONAL INFORMATION

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# DIRECTORS AND OFFICERS

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## DIRECTORS

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The name and municipality, province and country of residence of the Directors of the Company and their principal occupations as at December 31, 2021 are as below. For more information visit [www.canfor.com](http://www.canfor.com).

**John Baird**

Chairman  
Canfor Pulp Products Inc.  
Toronto, Ontario, Canada

**Dieter Jentsch<sup>(1)(5)</sup>**

Senior Advisor  
Corporate Director  
King City, Ontario, Canada

**Conrad Pinette<sup>(1)(5)</sup>**

President Condor Holdings  
Vancouver, British Columbia, Canada

**Stan Bracken-Horrocks, FCPA, FCA<sup>(1)(3)</sup>**

Corporate Director  
Kelowna, British Columbia, Canada

**Donald Kayne**

Chief Executive Officer  
Canfor Pulp Products Inc.  
Delta, British Columbia, Canada

**William Stinson<sup>(2)(5)</sup>**

Chairman and Chief Executive Officer  
Westshore Terminals Investment Corporation  
Vancouver, British Columbia, Canada

**Sandra Stuart<sup>(4)</sup>**

Senior Advisor  
Vancouver, British Columbia, Canada

## OFFICERS

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The name and municipality, province and country of residence of the executive officers of the Company and the offices held by them as at December 31, 2021 are as below. For more information visit [www.canfor.com](http://www.canfor.com).

**John Baird**

Chairman  
Toronto, Ontario, Canada

**Alan Nicholl<sup>(7)</sup>**

Executive Vice President, Bio-Based  
Solutions and Pulp Operations  
West Vancouver, British Columbia, Canada

**Brian Yuen**

Vice President, Pulp and Paper  
Sales and Marketing  
Vancouver, British Columbia, Canada

**Donald Kayne**

Chief Executive Officer  
Delta, British Columbia, Canada

**David Calabrigo, Q.C.**

Corporate Secretary  
Vancouver, British Columbia, Canada

**Patrick Elliott**

Chief Financial Officer and Senior Vice  
President, Sustainability  
Vancouver, British Columbia, Canada

**Kevin Anderson**

Vice President, Operations and Innovation  
Prince George, British Columbia, Canada

[1] Member of the Audit Committee.

[2] Member of the Joint Management Resources and Compensation Committee.

[3] Member of the Joint Governance and Sustainability Committee (formerly the Joint Corporate Governance Committee).

[4] Member of the Joint Environmental, Health and Safety Committee.

[5] Member of the Joint Capital Expenditure Committee.

[6] All committees of the Company, other than the Audit Committee, have as members one or more directors of Canfor and are joint committees with Canfor. For more information on the power, responsibilities and composition of the joint committees, see the Company's Information Circular dated March 23, 2021 and Canfor's Information Circular dated March 23, 2021, each of which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

[7] Subsequent to December 31, 2021, Alan Nicholl departed Canfor Pulp Products Inc.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

## CANFOR PULP INNOVATION

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Canfor Pulp Innovation ("CPI") was established and charged with a "search and apply" mandate for technology which determined that we adopt an Open Innovation approach to Canfor Pulp's R&D investment. Located in a purpose built facility in Burnaby, CPI is unique in Canada, right-sized and ultra-responsive to Canfor Pulp's customers and mills.

CPI operates under 4 strategic themes: cost reduction, strength & quality, tissue, and new products. Delivering an annual program comprising approximately twenty projects, CPI's Open Innovation delivery model comprises of 4 levels: CPI staff; contracted industry leading expertise; partnerships; and technical contracts.

Sponsored research with an international suite of collaborators is now delivering new opportunities from our growing intellectual property portfolio. CPI is delivering opportunities for continuous customer and mill improvements focused on ensuring that Canfor Pulp remains a global quality and technology leader in NBSK pulp.

## CORPORATE AND SHAREHOLDER INFORMATION

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### Annual General Meeting

The Annual General Meeting of Canfor Pulp Products Inc. will be held via webcast on May 3, 2022.

#### Auditors

KPMG LLP  
Vancouver, BC

#### Transfer Agent and Registrar

AST Trust Company (Canada)  
1600 - 1066 W. Hastings St.  
Vancouver, BC V6E 3X1

#### Stock Listing

Toronto Stock Exchange  
Symbol: CFX

CPPI also produces an Annual Information Form. To obtain this publication or more information about the Company, please contact Canfor Pulp Products Inc. or visit our website at <http://canfor.com/investor-relations>.

#### Investor Contact

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